

**DONORS, DEVELOPMENT AND DEPENDENCE
SOME LESSONS FROM BANGLADESH**

1971 TO 1986

BY

PETER G.R. THOMSON

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*Aid is not so much about
helping others as it is about
helping yourself.*

Member, Planning Commission

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ABSTRACT

The thesis uses Bangladesh as a model to test a "dependence paradigm". It posits that the sudden influx of resources that foreign aid brings does not necessarily lead to the social development and equitable economic growth which might have been expected because micro-economic forces tend to predominate over conventional macro-economic development theory. Instead it results in increasing inequity. The government and upper classes divert the largest proportion of the resources being provided and use them for reasons other than that for which they were meant. More inequitable distribution of income in turn justifies the continued need for foreign aid. The aid provided, justified by poverty, becomes a necessary part of the government's resources, discouraging domestic resource mobilisation and self-reliance. *Kical drug*

The dimensions of poverty and the nature and evidence of the country's dependence are reviewed. As the amount of aid "appropriated" increases, the government is increasingly dependent on its continuation and more constrained by the conditions attached to it by the donors.

The paper then goes on to explain that foreign aid donors tolerate this diversion of aid resources because they measure the results of aid in terms of quantity, not quality. Nor are they prepared to provide adequate means by which to plan, administer, monitor and evaluate the use to which aid is put. The quality of aid is not an issue that serves either their domestic needs or foreign policy objectives.

The successes in Bangladesh are shown to be attributable either to market forces or to foreign aid which does not lend itself to diversion by the upper classes. Some comparisons show that the phenomenon of a "resource windfall" leading to "appropriation" by the upper classes exists in other countries and is not unique to Bangladesh.

? not admin but pol power problem
The study concludes that unless appropriate aid is provided with sound administration, which uses, to the fullest, available expertise in the country, then increasing inequity and dependence are bound to result.

ACKNOWLEDGEMENTS

During the preparation of this study I have been fortunate enough to receive assistance from many quarters: first from Professor Susan Strange, my supervisor whose guidance and constructive comments were of immense help in attempting to arrange my diverse ideas in a coherent manner. Professor Meghnad Desai provided useful advice on the literature of development and his critical comments on the economic and historical aspects of the study were very helpful. Dr Gautam Sen read the manuscript in its many stages and provided constructive critical suggestions.

I am also grateful to the Chr. Michelson Institute in Bergen, particularly Dr Ole David Koht Norbye for taking the time to comment in detail on the substance of the arguments. Dr Just Faaland provided suggestions on the relationships between various structural problems and Eirik Jansen assisted me with useful information. The opportunity to visit and work at the Institute in September 1986 and June 1987 was also very stimulating.

It would not have been possible to pursue this study without the support, moral and financial, from my employer the Canadian International Development Agency, and particularly Chris Westdal, Art Wright and Bill McWhinney.

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Finally, I am particularly indebted to my wife Ann for constructive suggestions and tireless reading and re-reading of the study in its many stages and for her encouragement. I am also grateful to my children, Tony, Hilary and Matthew for their understanding of a dad who was often present in body but not in spirit.

It goes without saying that the views expressed are entirely my own. They do not imply any endorsement by any of those from whose wisdom and support I have benefited, nor of my employers past and present, CIDA and the World Bank.

INTRODUCTION

Bangladesh has been called "an international basket case".¹ This term was applied during the civil war in 1971 which led to the secession of East Pakistan only a few months after a devastating cyclone had hit the coastal areas of the country killing estimated hundreds of thousands of people.²

When Bangladesh gained independence in December 1971, following the intervention of India, the international community was quick to respond with aid. Except for Pakistan, the United States and China, there was little opposition to its secession, although there was considerable criticism of India's intervention. Independence was followed by a massive emergency aid effort led by the United Nations which found imaginative ways to mount a programme in a country that was not even as yet a member state.³ In contrast to such other breakaway states as Katanga and Biafra, its existence and legitimacy were soon recognised at the United Nations.⁴

The emergency phase was terminated on schedule in 1973,⁵ but a famine in 1974 resulted in another wave of foreign aid. By this time there was an emerging realisation on the part of the donors that assistance to Bangladesh was going to have to be a long term effort. Aid continued to flow generously throughout the remainder of the decade and into the 1980s without its impact and benefits being seriously questioned by the donors. An increasing number of scholars, however, questioned whether the harm foreign aid causes to the recipients does not outweigh the benefits it brings.

In 1984 the Like-Minded Group^{**} in Dhaka made up of the heads of the five aid programmes of Sweden, Norway, the Netherlands, Denmark and Canada expressed

^{*}Despite its acceptance by most nations its entry was vetoed by China, as a member of the Security Council, the first time that it was proposed.

^{**}The Like-Minded Group in Dhaka although it owes its name and area of interest to the Like-Minded Group started by Jan Pronk, Minister of Development Cooperation for the Netherlands, in 1974, is essentially an informal group comprising the heads of aid for Canada, Denmark, the Netherlands, Norway and Sweden, all of whose programmes share an interest in rural development and small scale agriculture.

skepticism at the optimistic tone of the World Bank, Bangladesh's largest donor,⁶ in the 1984 country economic memorandum (CEM). The World Bank lauded the Government for progress that had been made toward achieving adequate levels of caloric intake and self-sufficiency in food production.⁷ It also congratulated Bangladesh for taking "courageous decisions to stabilise the economy".⁸ The Like-Minded Group's skepticism was based on more subjective observations in the countryside as experienced development officers, and their belief that the Government was not doing enough for the rural areas with the resources that it had at its command.⁹ The decision of the Group was to undertake a complementary report.

A year later, in 1985, the North-South Institute of Ottawa produced a report, "Rural Poverty in Bangladesh: A Report to the Like-Minded Group" which concluded, among other things, that:

The picture which emerges is that of a vicious circle in which the government seeks to legitimize through a patronage system, aided by external assistance [emphasis added] but which merely strengthens the self-preserving ruling coalition who is content to contain the discontented majority. This coalition is committed to sustaining non-productive social and economic structures which generally results in the failure to achieve a critical minimum effort for growth, much less for equity, despite the horizontal expansion of financial resources and technical assistance.⁹

This conclusion is not consistent with the underlying objectives of development assistance, to promote both growth and equity. As the Brandt Report states:

It [development] refers, broadly speaking, to desirable social and economic progress, . . . Certainly development must mean improvement in living conditions, for which economic growth and industrialization are essential. But if there is no attention to the quality of growth and to social change one cannot speak of development.¹⁰

Lord Bauer, noted aid critic, takes strong exception to the objective of "equality" as a justification for foreign aid stating:

The misconception that the incomes of the well-off are somehow obtained by exploitation rather than earned has often had disastrous consequences: for example, it has led to spurious justification for the expropriation, and even destruction, of economically productive groups . . .¹¹

There is considerable evidence that suggests that much of the wealth of the well-off in Bangladesh in fact does not have its origins in productive enterprise. Rather it depends on the exploitation of foreign aid which was provided ostensibly to promote growth and alleviate poverty. Lord Bauer may well be correct, of course. The debate regarding the merits of public over private ownership of productive enterprise is still

⁹The writer was a member of the Dhaka Like-Minded Group (L-MG) and attended the meeting at which this decision was taken. No minutes were kept during the meetings of the L-MG.

open, and the expropriation of viable industries and businesses in Bangladesh may well have contributed to some of Bangladesh's economic problems. Aid, provided to promote development and improve the standard of living for the poorest, has become a more lucrative source of wealth than productive enterprise. The result is that productive enterprise, which might have developed, has been stifled leaving the country increasingly dependent on foreign aid. It has stifled Government initiative to rely on the country's own resources, leaving government policy vulnerable to pressure from varied, and sometimes conflicting foreign interests.

This study offers an explanation of why the process of providing foreign aid has not resulted in development. It accepts the view of Lord Bauer:

Giving more aid is equated with doing better; increased aid is used interchangeably with improved aid performance and countries giving a higher percentage of their national income in official aid are described as better performers than others giving a small percentage.¹²

It will show that aid, badly administered or spent on the wrong kinds of projects, results in harm to the recipient country. It argues that certain kinds of aid do have the potential to contribute to improved standards of living and equity in the Third World, but that frequently this does not happen because aid is either given for the wrong reasons, or given for the right reasons, but to the wrong projects. Furthermore, aid is often inadequately planned and inadequately administered. It will show that aid often encourages corruption resulting in increased impoverishment and inequity. Thus aid, like any fine tool in the hands of a craftsman, can produce excellent results. When the craftsmen are not well-trained, however, the slap-dash results that ensue can be disastrous. Bangladesh is used as the example because it is one of the largest very poor countries in the world and provides a wide range of experience. It is, however, possible to draw parallels with the experience of other countries.

Chapter I will review the nature of the country and its economic problems. It will then describe the importance of Bangladesh to development practice and theory. It will propose a model for the analysis of dependence on foreign aid, suggest a hypothesis and review the evidence that we would expect to find in order to substantiate a trend of increasing dependence.

We propose a two-country model termed an "aid-dependence paradigm" to show that a country which has been the recipient of a very large amount of aid within a short period loses its national sense of purpose and the will to achieve increasing self-

reliance. It also loses sight of the objective of trying to provide an acceptable standard of living for its citizens. Instead its policies are increasingly designed for, and dependent on, the pursuit of large quantities of the aid. This aid can then be "appropriated" by the middle and upper classes* for their own ends. The increasing impoverishment and increasingly inequitable income distribution that results serves as a rationale to seek more aid from donors. The process is not the result of any particular malevolence on the part of the country's leaders. Rather, it stems from the process of making a series of rational, but very short term, micro-decisions. The donors, in their turn, continue to make aid available allowing the country's leaders to follow policies that could not be sustained in a self-reliant country.

A review of the evidence will show that such a country follows a logical path in accepting all the aid that it can. It thereby manages to avoid many of the difficult decisions that have to be made about the allocation of scarce resources. Likewise, donors who provide aid are content to continue to provide it, although it may not achieve what it was designed to do.

Chapter II will review the economic and international relations theory relating to the motives for the acceptance of foreign aid. It will relate conventional development theory to both the strategies proposed and the strategies that were followed by various governments since independence in Bangladesh. We indicate the periods examined and why they were chosen. It will then suggest the areas to be examined and the evidence that should indicate whether the strategies were successful or not.

Chapter III will examine the empirical evidence in the particular areas that we have identified as being critical to the development of Bangladesh.

Chapter IV will describe the evidence of increasing poverty and dependence in specific areas of the economy.

Chapter V will outline the international relations theory of aid-giving and relate it to the manner in which the donors operate. The origins of aid, first provided as relief by the international community following the civil war,** the famine of 1974, and how

*For the sake of stylistic simplicity we will simply refer to these groups which comprise the middle class, the upper-middle class and the upper class; which we understand to comprise the rural power structure, the bureaucracy, the modern private sector and the most monied families; as the upper class. We will refer to the marginal farmers and the landless as the poorer class.

**Henceforth referred to as the War of Liberation.

aid became institutionalised are described together with the effects that this aid has had on the country.

Chapter VI outlines some of Bangladesh's success stories, the growth of the garment industry, the development of the Grameen Bank, the growth of wheat production, *et al.* It analyses briefly what the successful projects had in common that other efforts have lacked. We compare the experience of Bangladesh with that of some other countries which have been the recipients of resource windfalls: South Korea, Cambodia and Taiwan.

In Chapter VII we sum up the findings and conclusions about the provision of foreign aid. We show how the indiscriminate use of aid can result in the breaking down of a country's sovereignty and lead to increased dependence. The conclusions are related to the hypothesis suggested in Chapter I, and the evidence that we expected to find.

A note on the statistical information used in the study is in order, given the difficulties of data collection in Bangladesh. There are, for example, at least two different sets of national accounts for the early years of the 1980s. One set is calculated by the Bangladesh Bureau of Statistics and the other by the World Bank Mission. These may differ by as much as 20 per cent for various years. We have for the most part used the Government statistics since they are more complete and, in the opinion of some scholars, more accurate than those used by the World Bank.* Statistics should, however, be interpreted with care and they are used here as indicators of trends rather than as exact measurements.

Some limitations to the study are also worth noting. Corruption is difficult to document under any circumstances. While Bangladesh does offer an unusually wide range of examples, the picture is far from complete and there remain many large gray areas.

Government departments, of which aid agencies are usually a part, are not particularly noted for strong, objective self-criticism. Critical analysis of their operations is therefore not abundant in the literature of development. There are three conspicuous exceptions. There is an abundance of literature concerning the United States Agency for International Development (USAID or AID). The question is whether the foremost

*Ole David Koht Norbye, of the Chr. Michelson Institute, in a conversation with the writer believes that the statistics produced by the Bangladesh Bureau of Statistics tend, on the whole, to be on the whole more accurate than those of the World Bank.

objective of AID is the economic and social development of the recipient country through the provision of financial assistance. It has been argued that it seeks primarily to influence policy to conform with American objectives, and economic and social development become desirable byproducts of the process. AID, unlike most development agencies, is highly decentralised. The World Bank, as a major and often controversial institution, has been subjected to much criticism both from within and from without. The Canadian International Development Agency (CIDA) has long demonstrated a penchant for self-criticism. Other development agencies have carried out studies of their operations, most notably the Norwegian Agency for International Development (NORAD) which has published a series of books reviewing their programmes. There is, however, little mention, in this otherwise excellent series of books, of the challenges and problems of the administration of overseas aid. The masculine gender is used in this study simply for stylistic reasons.

Finally, the writer was resident in Bangladesh from 1982 to 1986 and is conversant with many of the examples cited. We have tried, however, to minimise the reliance on anecdotal evidence. Where used it is usually placed in a footnote in support of other evidence.

NOTES

1. Jack Anderson with George Clifford, The Anderson Papers, (New York: Random House, 1973), p. 227. The statement, often attributed to Henry Kissinger, was actually made by Ambassador Alexis O. Johnson in a meeting at the State Department. Kissinger replied "It will not necessarily be our basket case".
2. Brian Urquhart, in Thomas W. Oliver, The United Nations in Bangladesh with Foreword by Brian Urquhart (Princeton, N.J.: Princeton University Press, 1978), p. xvi.
3. Ibid., p. xviii.
4. Peter Calvert, The Foreign Policy of New States, (n.p.: Wheatsheaf Books, 1986), p. 29.
5. Oliver, The United Nations in Bangladesh, p. 206.
6. Bangladesh, Ministry of Finance, External Resources Division, Flow of External Resources into Bangladesh (As of June 30, 1985), Dhaka, Tables 4, 5 and 6, pp. 18-91.
7. World Bank, Bangladesh: Economic Trends and Development Administration, Report No. 4822, 2 vols., February 27, 1984, Vol. I, p. 1.
8. Ibid., p. 2.
9. North-South Institute, "Rural Poverty in Bangladesh: A Report to the Like-Minded Group", Ottawa, April 1985, (Mimeographed), p. 151.
10. North-South: A Programme for Survival--The Report of the Independent Commission on International Development Issues under the Chairmanship of Willy Brandt, (London: Pan Books, 1980), p. 48.

11.P.T. Bauer, Equality, the Third World and Economic Delusion, (London: Methuen, 1981), p. 12.

12.Ibid., p. 90.

CHAPTER I

THE ISSUE

Introduction to the Country

This chapter introduces Bangladesh and outlines the problem, the participants and their relationships. It suggests, through the use of a model, possible causes for a developing country's failure to achieve self-sufficiency despite access to resources necessary to achieve economic and social development. We suggest what evidence would substantiate our hypothesis or refute it.

Geographically Bangladesh is located on the delta, at the confluence of the Ganges and Brahmaputra (Jamuna) Rivers, where they form the Meghna River. The land is flat, broken only by gently rolling hills in the northeast and in the Chittagong Hill Tracts along the Burmese border and the border with the Indian states of Tripura and Mizoram. Bangladesh is criss-crossed by rivers and streams. As a result it is frequently inundated by flood waters draining the monsoon rains from the Himalayas of India and Nepal. About one third of the country is underwater about one third of each year. The soil is fine and fertile. The region is subject to a monsoon which usually lasts from June until October.¹ The average annual rainfall is from 1.4 to 5 metres,² most of which falls between the months of May and October.³ The temperature in Dhaka,* the capital, ranges between 12 and 27 degrees Celsius in January, the coolest month, and between 25 and 34 degrees Celsius in May, the warmest month.⁴

Bangladesh has some 100.6 million (1985)⁵ people living in an area of 144,000 square kilometres. This makes it the most densely populated country in the world, outside the city-states such as Hong Kong and Singapore. In 1985 it had a

*The spelling of Dacca, the capital, was changed in 1982 to Dhaka. The current spelling is used throughout this paper.

population density of 699 per square kilometre, and 1062 per square kilometre of arable land.⁶ This latter ratio of population to arable land is high, but by no means unique. The United Kingdom, China and Japan have comparable ratios. Taiwan, South Korea and Haiti have only half the cropland per capita that Bangladesh has.⁷ Bangladesh has, therefore, some scope for achieving food autarky.

Bangladesh was established as a secular state^{*} with a unicameral legislature first under the Provisional Constitution Order issued on the day Sheikh Mujibur Rahman,^{**} founding father and first Prime Minister, returned to Dhaka.⁸ Government was by parliamentary system under a figurehead President who acted on the advice of a Prime Minister,⁹ basically a Westminster style of government. This was modified by Sheikh Mujib in January of 1975 by an amendment to the constitution effectively changing the form of government to a presidential system.¹⁰ With this change power was shifted from the Prime Minister to the President and Sheikh Mujib became President.

This form of government has lasted ever since, although it has been broken by long periods of Martial Law. The assassination of Sheikh Mujib in August 1985⁹ was followed by the brief regime of Khandakar Moshtaque Ahmed which lasted until November 1975 when he could no longer keep the military in line. A series of abortive coup attempts took place and A.M. Sayem, then Chief Justice, was appointed President and Chief Martial Law Administrator (CMLA).¹¹ Major General Ziaur Rahman,^{***} then Chief of Staff of the Army, effectively seized power on November 23, 1975,¹² becoming Deputy Chief Martial Law Administrator (DCMLA) and Minister for Finance and for Home Affairs. With direct control over both the finances of the country and responsibility for the police and intelligence services he became de facto Head of Government.¹³ General Zia ruled as DCMLA for a year, becoming CMLA on November 30, 1976. On April 21, 1977 he forced President Sayem to resign and assumed the Presidency.¹⁴ On May 30, 1977 he held a referendum to confirm himself as President. He won a 98 per cent majority.¹⁵ The slight edge the Awami League won in the municipal elections the following summer did, however, cast some doubt on the legitimacy of this overwhelming majority.¹⁶ On June 3, 1977 Justice Abdus Sattar was

^{*}Bangladesh became an Islamic state in 1988.

^{**}Sheikh Mujibur Rahman is generally referred to as Sheikh Mujib or President Mujib and will be so referred to in this paper.

^{***}General, later President, Ziaur Rahman is generally referred to as General or President Zia and will be so referred to here.

appointed Vice-President.¹⁷ A year later on June 3, 1978, President Zia held presidential elections and won.¹⁸ On February 18, 1979, parliamentary elections were held, which he won handily with a majority of 205 seats out of 300, and the country was returned to nominally legitimate rule.¹⁹

President Zia was assassinated on May 30 of 1981 while visiting Chittagong. The attempted coup was put down and the presidency was passed peacefully under the terms of the constitution to the Vice-President, Justice Abdus Sattar,²⁰ who shortly thereafter, in November 1980, called elections and was elected as President in his own right.²¹

On March 24, 1982 Lt. Gen. H.M. Ershad, Chief of Army Staff under both Presidents Zia and Sayem, seized power. Once again Martial Law was imposed using the necessity to end corruption as the main justification.²² On March 27 Justice Abul Fazal Mohammad Chaudhury was named President. General Ershad ruled as CMLA until December 11, 1983 when President Chaudhury resigned and Ershad was named President.²³ A referendum was held in early 1984 to confirm his appointment. Parliamentary elections were held in April 1986, and Presidential elections took place in October 1986. After some delay in ratifying the actions of the Martial Law Government, the country was once again returned to nominally legitimate government. Bangladesh has, therefore, enjoyed seven and a half years of nominally legitimate rule in the first fifteen years since independence.

During the period following independence there was initially a determined attempt to build on the links that were beginning to be established between East Pakistan and the Soviet socialist bloc.²⁴ Sheikh Mujib's first foreign visit following independence was to the Soviet Union. This was an attempt to diversify the economic ties that had developed between Pakistan and the West, and to build on the relations that had existed between East Pakistan and the Soviet bloc during the period immediately preceding the War of Liberation.²⁵ As the country faced growing economic problems in 1973 and 1974, and Mujib needed American aid, he changed direction and made a determined effort to bring his country closer to the United States.²⁶ This move corresponded with an improvement in relations with the World Bank. Since 1975 Bangladesh has tried to remain on good terms with the western countries which supply the bulk of the foreign aid it receives. Relations with India, its closest neighbour, have been generally cordial over

the years, although there have been periods of tension. They have warmed slightly since the formation of the South Asian Association for Regional Cooperation (SAARC).^{*} Bangladesh is also a member of the non-aligned group,²⁷ and a member of the Group of 77.

Foreign aid dominates the foreign policy of Bangladesh, and has ever since the first days of the regime of Sheikh Mujib. President Zia encouraged the increase of foreign aid and actively sought more aid, visiting the United Kingdom in June 1980 in an attempt to increase the United Kingdom's assistance.²⁸ Zia also cultivated Robert McNamara during his last year as president of the World Bank. After what Franda terms "heavy courting", he managed to elicit from McNamara a commitment for US\$ 1,000 million in additional funding over the next three years.²⁹ President Ershad sought foreign aid on his trips abroad to the United States when he called upon President Reagan in October 1983³⁰ and visited Saudi Arabia, another major donor. At the United Nations Bangladesh's preoccupation has been with increased aid and it plays an active part in agencies such as the World Food Programme, of which it is a major recipient.

Economically Bangladesh is an agrarian country. After independence, in 1972/73, agriculture accounted for 59 per cent of GDP.^{31**} In 1984 agriculture accounted for 48 per cent of GDP, industry for some 12 per cent and services for 39 per cent.³² The country is not self-sufficient^{***} in food grain production, relying on imports for about 10 per cent of its requirements. These figures should be treated with caution since the figure for 1972/73 is for a period immediately following the War of Liberation during which industry suffered proportionately more than agriculture. Furthermore, in recent years there has been disagreement between the Government and the World Bank regarding the exact GDP figure. In the agricultural sector in 1976/77 food grains account for 72 per cent of the value added in the agriculture sector and jute, the major export

^{*}Formerly known as SARC.

^{**}Estimates for GDP "for 1972/73 through 1979/80 are not directly comparable with those of subsequent years, as wages and salaries paid out of the Government's Annual Development Program were not included in estimates of value added prior to 1980/81" (World Bank, Report No. 5409, Note to table 2.1, p. 12. This is reflected in the estimates for Public Administration and Defence. Our calculation of the probable impact, based on trends prior to the change, is an increase in total GDP of about 1.2 per cent.

^{***}Self-sufficiency is not a clear cut term. Assumptions have to be made about what an acceptable daily ration in terms of per capita availability of food. The generally accepted level of self-sufficiency is when the per capita food availability is above 16 ounces of foodgrain per day. Figures as low as 13 ounces and as high as 17 ounces have been used in the past. See Robinson, *Economic Prospects of Bangladesh*, Chapter 2 for a discussion of the alternative assumptions. Self-sufficiency does not imply adequate nutritional intake. Rather it is a measure of the balance of payments implications of having to import food in order to supplement domestic production.

crop, for 5.7 per cent.³³ Growth in agriculture has been disappointing, failing to keep pace with population growth between 1970 and 1980.³⁴ The area of most positive results has been the introduction of wheat as a crop during the winter season and the improvement in the production of boro (winter) rice. Both these crops have benefitted from the expansion of irrigation although much wheat is rain fed, utilising only the existing moisture in the soil.³⁵ Most minor crops, such as oil seeds, cotton, spices, fruit and vegetables, have dropped in production over the years since independence.³⁶

The industrial sector is dominated by jute manufacturing for the production of jute products such as hessian, carpet backing and jute bags. These accounted in 1974/75 for about 32 per cent of value added.³⁷ There has been an increase in the proportion of jute manufactured goods for export, as compared to the export of total jute goods, from 58 per cent to 77 per cent. Other manufacturing industries include sugar, cement, fertiliser, pulp and paper and cotton textiles, with match making and tyre manufacturing as minor industries.³⁸

Since 1980 the garment manufacturing industry has grown from exports of US\$3.24 million in fiscal year 1981, when it accounted for 0.5 per cent of export earnings, to an estimated US\$116.2 million in fiscal year 1985, some 12.4 per cent of exports.³⁹ This made it the fastest growing export product. The rapid growth quickly attracted the attention of garment industries in the United States, France and Canada, all three major donors. The result was the imposition, or negotiation, of import quotas under the Multi-Fibre Agreement resulting a slowing of growth in this new area.

The rapid growth is attributable to several factors: other traditional exporters such as Hong Kong, Malaysia, etc., had completely utilised their quotas; Bangladesh, as a least developed country, was not yet subject to quotas. Being labour intensive, the industry lent itself to rapid expansion with minimal risk to outside investors and provided maximum opportunity to local entrepreneurs.

Fertiliser production has also increased as new factories have been built. Another product which has grown quickly in importance, from about 1 per cent of exports in 1972/73 to 10 per cent in 1984/85, has been the processing and export of frozen shrimp and frog's legs.⁴⁰

The modern energy sector accounts for some 75 per cent of energy requirements, the balance being made up of cow dung, crop byproducts, and firewood.⁴¹

It has grown quickly, a reflection of the donors' attraction to capital intensive projects as we will see in Chapter V. Natural gas is the only natural resource exploited to date. As of 1980, there was an estimated recoverable reserve of some 9.6 trillion cubic feet.⁴² Deposits of coal have been located in parts of the country,⁴³ but their depth makes extraction uneconomic. There are deposits of peat in the Meghna flood plain,⁴⁴ but no large scale extraction has yet taken place. Studies are underway to examine the feasibility of using peat to power thermal generating stations on the western side of the country where as yet no gas has been located in commercial quantities.⁴⁵ While the possibility of oil exists, in deposits associated with the gas in the eastern zone, none has been found and Bangladesh relies upon gas byproducts and imports to meet its domestic needs. Even a basic mineral, such as rock for aggregate used in road-building and construction, must be imported or manufactured from kiln-baked brick which is then broken up by hand.

The transport sector is characterised by difficult terrain caused by the prevalence of rivers,⁴⁶ frequent flooding, and a topsoil that is vulnerable to erosion. The number of rivers result in the requirement for many appurtenant structures, such as bridges and culverts for road and rail transport, and in very high maintenance costs. The railway system is constructed in two gauges, metre and broad gauge. In the west it was designed to allow Calcutta access to its hinterland,⁴⁷ while the eastern railway was built later to give Chittagong port access to Assam. Railway transport accounts for less than 5 per cent of value added in the transport sector.⁴⁸ Road transport is the most predominant form of carriage, accounting for some 54 per cent of value added by transport, while river transport accounts for about 38 per cent.⁴⁹ The figure for river transport may very well be understated as there is less control over traditional water transport than there is over road and rail transport. There is also less interest on the part of the Government in encouraging its development.

The country suffers from a major structural problem in balance of trade, relying heavily on remittances from migrant workers and contributions in the form of food and commodities from aid donors to make up the difference in the balance of trade. Non-traditional exports,* such as garments, leather, shrimp and fish products have grown

*Some sources consider leather to be a traditional export while others do not. For the purpose of consistency we will not consider it to be a traditional export.

from 7.2 per cent of exports in 1972/73 to a projected 36.2 per cent in 1984/85. Most of this growth is accounted for by the garment industry.⁵⁰ These gains have been offset by a deterioration in the international jute market. The outlook for the jute industry is not bright as jute products meet increasing competition from synthetics.

Imports exceed exports by a very large amount, ranging from an average of 191 per cent of exports, in the period from 1972 to 1975, to an average of 225 per cent of exports from 1980 to 1985.⁵¹ Food has usually been the largest import, accounting for some 55 per cent of imports from 1972 to 1975. It diminished to about 19 per cent of imports for the 1980 to 1985 period.⁵² It should be noted, however, that food imports in terms of total tonnage decreased from the 1972 to 1975 period to the 1975 to 1980 period, but have remained at about the same level as the previous period between 1980 to 1985.⁵³ Capital equipment has increased from about 17 per cent of imports during the 1972 to 1975 period to 26.5 per cent of imports from 1980 to 1985.⁵⁴ The pattern emerges of a country whose imports are made up of a large portion of consumable items, and which depends upon a single crop, jute, for the major share of its foreign exchange earnings.

The country has suffered natural disasters such as cyclones and floods on a regular basis since recorded history. Although it was once a relatively prosperous egalitarian agricultural economy,⁵⁵ most of the population now live below the poverty line.* Per capita GNP is about US\$130. The country suffered a serious famine in 1974. There are widely differing estimates of its impact. Mortality was officially estimated at 26,000⁵⁶ but some scholars put it as high as 1.5 million.⁵⁷ Other countries too, such as China, have suffered disasters of devastating proportions, but Bangladesh has dwelt on them rather more than most countries.⁵⁸ The Executive Summary of the Third Five Year Plan illustrates:

There had been recurrent floods and droughts, some of severe intensities, occurring more frequently in recent years, continuously sapping vitality of the farming population. The economy continued to remain in fragile state because of the overwhelming dependence of its predominantly agriculture sector on weather.⁵⁹

*The methodology for determining the poverty line is discussed in Chapter IV.

The Importance of Bangladesh in the Context of Aid

When it gained its independence from Pakistan in 1971, Bangladesh became one of the poorest countries in the world. It is still ranked as the second poorest country, of those with populations of over one million people, in the World Bank's World Development Report: 1986.⁶⁰ The importance of Bangladesh in the context of foreign aid and development lies in the fact that, with the exception of the poor in India and China, it is the largest group of very poor people in the world. As an independent country, it became a recipient of aid rather later than most other developing countries. It was at independence, and still is, characterised by extreme poverty and, although the land is some of the most fertile in the world, it is producing at far below its potential.⁶¹

The standards of living in both wings of Pakistan were comparable at the time of partition from India. However, the resources available to Pakistan as a whole were not shared equitably. The result was a growing imbalance between the two sides of the country which, together with political problems that had plagued it since partition, culminated in the War of Liberation of 1971. While independence was achieved in 1947, as part of Pakistan, the period preceding the War of Liberation is regarded by most Bangladeshis as having been an extension of the colonial era, one during which they were subjected to much the same kind of exploitation that they had been during the days of the British Raj as East Bengal.

Bangladesh shares many of the problems common to other developing countries: overpopulation; an overwhelming reliance on a single major crop, jute, for earning foreign exchange; an undeveloped industrial sector; and a relatively unproductive agriculture sector. At the time of independence it offered an ideal opportunity as a place in which the problems of economic development could be approached and solved by applying the lessons learned in the previous quarter century in other developing countries.

On the positive side of the development picture, unlike many newly independent countries whose borders crossed ethnic lines, Bangladesh had the advantage of having an ethnically homogeneous population, of whom only 13 per cent were Hindu.⁶² As A.R. Khan writes:

More than any other nation of comparable size, Bangladesh has a remarkable linguistic, ethnic and cultural homogeneity. A single language, with a single script and a reasonably developed literature, is spoken by almost all the people. Except for a minute proportion of border

tribesmen, the whole population is remarkably similar in cultural habits. Religion, the most outstanding source of rivalry among people on the Indian subcontinent, has almost totally been in the background for some time. . . .⁶³

This factor alone should have rendered the country immune to much of the internal discord that has plagued so many other former colonies with non-homogeneous populations, and made it an easier laboratory in which to practice the lessons learned in promoting development since World War II. In addition, although its agriculture sector was relatively unproductive and the land overpopulated, the soil was very fertile and there was scope for improvement of productivity. Bangladesh had the potential of achieving self-sufficiency in food grain production and even the potential of exporting some crops.

To add further to its attraction, the Government appeared open and prepared to listen to the opinions of outside experts. At independence there was also a determined effort to bring together the most distinguished minds in the development field to broach the problems that the new country faced. The most evident example of this is that the International Economic Association held its 1973 conference in Dhaka and discussed the problems facing the new country.⁶⁴

In 1976 Bangladesh was called "the test case for development"⁶⁵ with respect to the development strategies proposed. Just Faaland and J.R. Parkinson suggested that the technical means were available to increase food production, diversify economic activity and broaden the economic base. What was required was strong leadership and administration. They concluded by saying:

There is a path, . . . that Bangladesh could follow to reach the goal of a stable population and a standard of living offering little luxury but enough in meeting the fundamental requirements of life to make existence more than bearable. The path is narrow. Deviation from it could bring ruin to the inhabitants of Bangladesh and compel most of them to eke out their days inadequately fed and cared for. This can be avoided through the joint endeavours of Bangladesh and the international community. If development can be made to succeed in Bangladesh, there can be little doubt that it can be made to succeed anywhere else. It is in this sense that Bangladesh is the test case for development.⁶⁶

The Foreign Aid Programme

For this study we consider development assistance* to be aid to countries as it has evolved since World War II. Some authors have treated resource transfers between countries during colonial times as a form of development assistance. While there have undoubtedly been transactions of this type that could be interpreted as some variation of development assistance they are beyond the scope of this study.

Development assistance as we know it today, and as it relates to the less developed countries, owes its origins to the Marshall Plan mounted in 1947 and to President Truman's Point Four Program of 1948. In it he suggested bold and generous measures on the part of the West to aid the more unfortunate living in poverty.⁶⁷ The Colombo Plan which came into being in 1950 was another example of the recognition of poverty in the countries of Asia.

In the discussion of aid many authors have pointed out that Bangladesh has not received an exceptionally large amount of aid vis-a-vis many other recipients either in terms of aid on a per capita basis or aid as a percentage of the GNP. This is true when compared to the countries of the Sahel for example. An examination of aid as a percentage of the GNP in different countries shows that the log of the amount of aid as a percentage of the GNP varies inversely with the log of the population of the recipient country giving a moderately good fit of $r=-0.57$.^{**} Thus, countries that have received a high percentage of their GNP as aid tend to be small. As recipients increase in population the amount of aid that they receive decreases as a percentage of their GNP. Figure 1.1 shows a scatter diagram for the low income countries as defined by the World Development Report 1986. We see from Figure 1.1 that the only other less developed countries with populations of roughly the size of Bangladesh are Pakistan and Nigeria. Others, with populations of about half as much are the Philippines, Egypt, Ethiopia, Thailand, and Turkey.

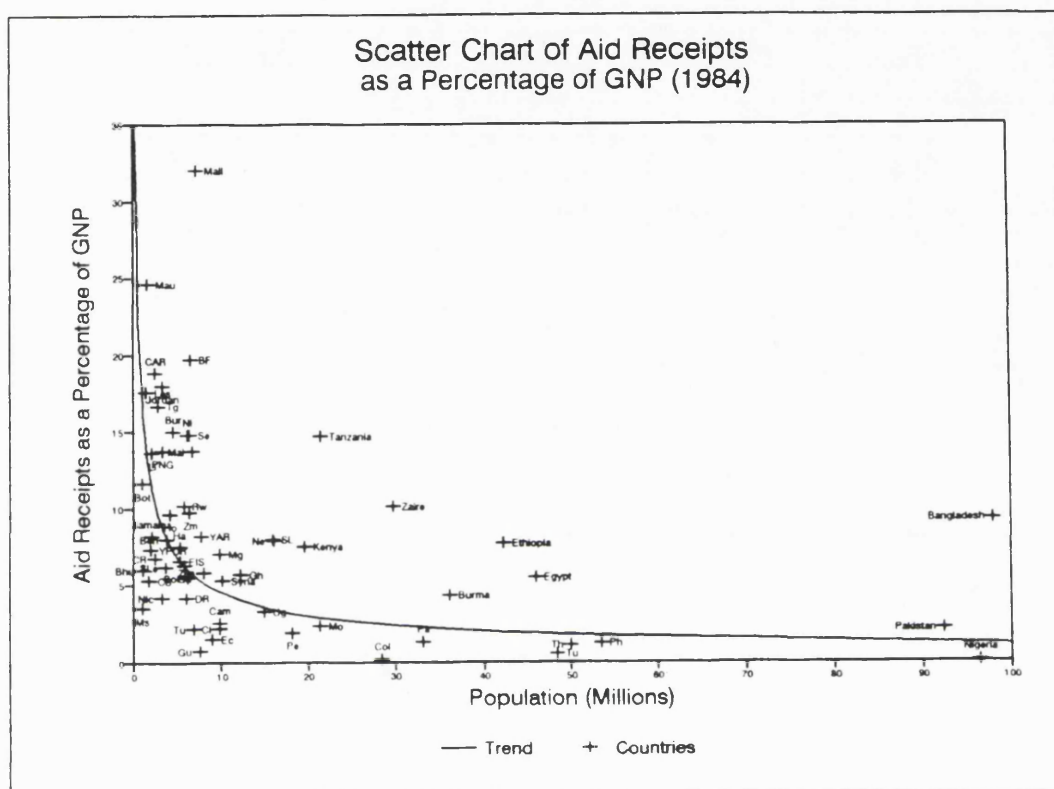
Some countries are clear anomalies. The reasons why they receive large amounts of aid are also evident. Ethiopia has suffered devastating droughts. Egypt, by

*Development assistance, foreign aid, and aid are considered to be synonymous in the following chapters.

**See Appendix I.

virtue of its geopolitical position and role in the Middle-East peace efforts has commanded very high aid allocations particularly from the United States.

FIGURE 1.1



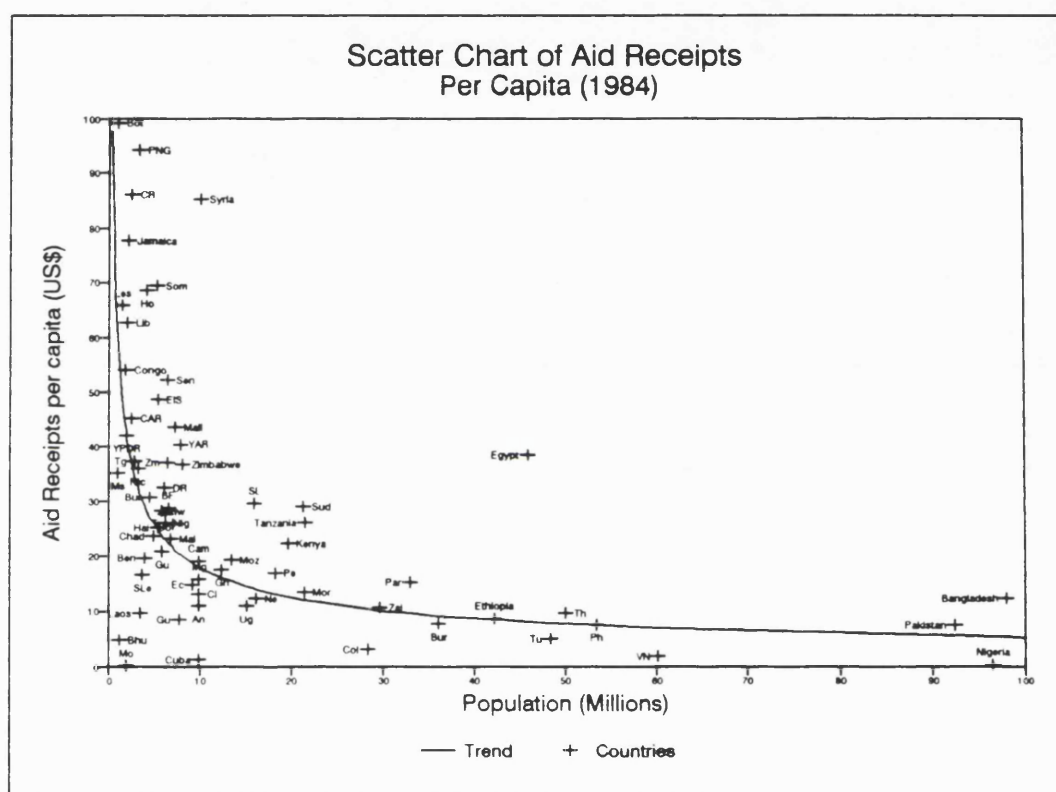
Source: World Bank, *World Development Report: 1986* with a foreword by A.W. Clausen (New York: Oxford University Press for the World Bank, 1986), table 21, p. 220-221.

Zaire and Tanzania with populations of 29.7 million and 21.5 million respectively receive more and the reasons for this are less straightforward. The former's geopolitical position and importance as a supplier of minerals give it considerable importance in the view of some donors. Tanzania is a special case in that it has stated publicly in the Arusha Declaration that it would attempt to achieve development with a minimum of external assistance. In fact this attempt at self reliance appears to have attracted aid. As Roger Young interprets the attitude of the donors of the time:

The Arusha Declaration provided a distinctive approach to development at a time of growing disenchantment with the ability of developing countries to alleviate widespread poverty. Regarded as an ambitious and just program for moving Tanzania out of the throes of poverty, it brought widespread international attention and approbation to Tanzania. It coincided with the earliest signs of the "Great Society" and the "Just Society" in North America and the growing discontent in Western Europe with the prevailing socio-economic order. It also appealed to the liberal and socialist governments of Western and Eastern countries respectively, who were soon to make Tanzania the "darling of Africa".⁶⁸

As we go down the scale we see that no other country with a population of over 10 million receives more aid, as a percentage of GNP, than Bangladesh. The significance of this is that donors have not only been prepared to give aid at a high level in proportion to the country's size, but that they have been prepared to make aid available in very large amounts to Bangladesh.

FIGURE 1.2



Source: World Bank, *World Development Report: 1986* with a foreword by A.W. Clausen (New York: Oxford University Press for the World Bank, 1986), table 21, p. 220-221.

The same analysis can be carried out on the basis of aid received on a per capita basis with only slightly different results (see Figure 1.2).^{*} We can conclude from the position of Bangladesh that it is anomalous. It is both a large country and it receives a relatively high level of aid as a percentage of GNP when compared to other countries of similar size (see Table 1.1).

Another measure of the importance of Bangladesh in the allocation of aid by bilateral donors is shown in Table 1.1. This shows Bangladesh's aid receipts as a

^{*}See Appendix II.

percentage of total aid allocated to the least developed countries by major donors for selected years.

The significance of Table 1.1 is the relative importance Bangladesh plays in commanding access to the resources targeted to the low-income countries. Considering that Bangladesh has only 4 per cent of the population of the low-income countries, as classified by the World Bank,⁶⁹ it receives a significantly higher share of the resources devoted to low-income countries than its importance would warrant. This is particularly apparent when considered with Figure 1.1 which has shown that the predisposition of donors is to spend proportionately more on smaller countries. Its position is skewed somewhat by the very large populations of India and China. Even when they are removed completely Bangladesh still accounts for only some 16 per cent of the population of the low-income countries.

TABLE 1.1^A
Bangladesh's Aid Receipts from DAC Countries
(Expressed as a percentage of DAC members' aid to low-income economies)

	75/76	76/77 ^B	77/78 ^B	78/79	79/80	80/81	81/82	82/83	83/84 ^B
Australia	13.7%	n/a	n/a	19.5%	38.9%	37.3%	23.9%	10.8%	n/a
Belgium	0.9	n/a	n/a	2.2	0.47	0.91	3.3	3.1	n/a
Canada	4.7	n/a	n/a	20.8	22.7	25.4	20.5	23.1	n/a
Denmark	8.6	n/a	n/a	10.8	8.7	10.7	17.1	15.1	n/a
Finland	4.7	n/a	n/a	0.0	0.0	1.2	4.7	0.0	n/a
France	2.1	n/a	n/a	3.8	1.9	4.8	7.4	7.5	n/a
F.R.G.	8.3	n/a	n/a	12.4	8.0	10.0	10.0	2.8	n/a
Italy	12.1	n/a	n/a	0.0	5.9	0.0	0.0	0.0	n/a
Japan	11.1	n/a	n/a	19.1	28.9	21.0	28.4	13.1	n/a
Netherlands	11.8	n/a	n/a	5.5	6.8	12.2	15.7	9.4	n/a
New Zealand	4.7	n/a	n/a	0.1	13.8	1.9	0.0	n/a	n/a
Norway	7.9	n/a	n/a	4.7	16.2	17.0	17.0	13.8	n/a
Sweden	6.3	n/a	n/a	9.8	5.4	6.5	4.8	7.9	n/a
Switzerland	0.0	n/a	n/a	1.6	12.8	8.2	11.1	1.8	n/a
United Kingdom	7.5	n/a	n/a	21.0	10.5	8.0	6.1	12.9	n/a
United States	22.9	n/a	n/a	20.4	25.3	16.7	13.4	16.2	n/a

Sources: Calculated from World Bank, World Development Report: 1986 (New York: Published for the World Bank by Oxford Press, 1986), table 20, p. 218-219, and from total aid figures in Bangladesh, *Flow of External Resources into Bangladesh (As of June 30, 1985)*, External Resources Division, Ministry of Finance, tables 4, 5 and 6, pp. 18-91.

^AGreat care should be taken in interpreting these figures since the fiscal period over which the Government of Bangladesh calculates its aid receipts differs from that of the World Bank. The table is useful only in considering general orders of magnitude of the aid sent to Bangladesh as a percentage of any particular country's total allocation to the least developed countries.

^BFigures not available for certain years.

From the above we can conclude that Bangladesh is considered to be an important developing country by the largest donors. We examine the record of the major donors: the United States, France, Japan, the Federal Republic of Germany, Canada, the United Kingdom, the Netherlands, and Italy. All of these have contributed more than US\$1,000 million in overseas development assistance to all developed countries in 1985.⁷⁰

We find that all, except for Italy which has only given to Bangladesh during periods of crisis,⁷¹ have made proportionately more of their aid allocated to the low-income economies, available to Bangladesh than appears to be warranted from its importance as a participant in the international economy or its geopolitical position. The United States, Japan and Canada, in recent years the three of the largest bilateral donors,⁷² have made available more than 20 per cent of the resources allocated to low-income economies to Bangladesh. Why has Bangladesh attracted the attention of so many donors and why have the donors sustained aid programmes over a lengthy period at comparatively high levels?

Evidence of Increasing Dependence

Despite the large amount of aid that has been provided to Bangladesh since its independence in 1971, the trends of increasing poverty linked with increasing dependence are disturbing. In The Crisis of External Dependence, Sobhan identifies several indicators which he terms "The Dimensions of Aid Dependence in Post-Liberation Bangladesh".⁷³ These are the amount of aid, aid as a percentage of imports, gross domestic savings as a percentage of GDP, aid as a percentage of investment, aid as a percentage of the Annual Development Plan (ADP) and the percentage of loan financing in the development budget. The foregoing, while valid, outline the dimensions of dependence only at particular points in time. They do not show the trends of dependence. It is important to gain an appreciation of the trends in the process of increasing dependence versus the process of development. Table 1.2 gives some of the indicators.

Table 1.2 shows that the balance of trade has widened considerably since independence. The budget deficit is almost as serious as it was during the immediate post-war period of reconstruction, and well above what it was during the three years following independence. Tax revenue has stagnated since 1975/76 while aid has continued at relatively high levels. Finally, from the scanty data available, there is a perceptible worsening in the distribution of income.

The issue of inequitable distribution of the income is difficult to quantify precisely because of the paucity of data at the country level. However, measurements taken in 1973/74⁷⁴ and two years later in 1976/77⁷⁵ show a distinct shift in the allocation

of household income toward the upper classes. This is particularly true of the wealthiest ten per cent.⁷⁶ There are, however, other indications that the trend is continuing. What is striking is the very small increase in resources available to the poorest segments of the population as GDP increased (see Chapter IV, Tables 4.1 and 4.2.). Kuznets, Chenery and others argue that the U-hypothesis holds for very low income countries. This posits that income of the poorest 40 per cent of the population will tend to fall until incomes reach a certain level, after which it will start to rise again. Other scholars maintain that cross-country studies do not show a clear relationship between the income share of the poorest 40 per cent first dropping and then rising in relation to rising per capita GNP. Saith in analysing the work of Kuznets and Ahluwalia concludes by saying:

As a paradigm, the cross-country U-hypothesis is arguably more of a hindrance than an aid to our comprehension of the relationship between economic growth and income distribution. It obfuscates more than it clarifies.⁷⁷

That living conditions in the rural areas have deteriorated has been amply documented by scholars. It is summarised in the Report on Rural Poverty in Bangladesh.⁷⁸ The number of people living below the poverty line has grown as a percentage of the rural population during the period since independence (see Chapter IV, Table 4.5). There is a net outflow of resources from the rural areas.⁷⁹ The rural sector imports fertiliser and other inputs from urban areas for agriculture, but it is constrained from exporting food grains to the urban areas because they receive a large proportion of their food needs from the Food Distribution System.

There is equal justification for believing that the standard of living in the urban areas for the poorer elements of the society has also deteriorated. There has, however, been less research conducted in this area as urban dwellers account for only 12 per cent of the total population.⁸⁰ The problem has not yet achieved the visibility in the research literature that rural poverty has, because Bangladesh is still largely a rural country.

⁸⁰Some estimates of urbanisation are much higher, but the Government changed the methodology of determining who were urban dwellers. There is no question but that urban poverty is rapidly becoming a serious problem, but it is relatively small when compared to the rural areas where the majority live.

TABLE 1.2
Economic Indicators
(As a Percentage of GNP)

	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85 ^A
Balance of Trade	-6.6	-6.2	-7.4	-12.1	-6.0	-9.9	-9.9	-14.4	-12.8	-14.7	-13.4	-11.0	-11.4
Budget Deficit	10.3	5.0	2.2	6.1	8.2	8.0	8.8	11.1	8.2	9.9	10.2	9.1	9.9
Government Revenue	5.0	5.5	5.4	8.2	9.4	9.5	8.6	9.2	9.8	9.7	9.4	9.3	10.6
Foreign Aid	9.1	5.0	6.4	11.1	7.8	8.6	9.1	9.6	8.0	9.2	9.4	9.1	8.3
Gross Domestic Savings	n/a	n/a	0.8	-1.9	3.2	2.7	3.0	2.0	2.3	-3.5	1.7	3.4	n/a
Distribution of Income-Highest 10%	n/a	27.0	n/a	n/a	32.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
-Lowest 40%	n/a	18.2	n/a	n/a	17.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: Balance of trade derived from tables 3.2, 3.3,3.4 and 3.8 in World Bank Report 6049-BD. Deficit is derived from tables 2.5 and 5.1 in World Bank Report No. 5409. Aid figures from Flow of External Resources (as at June 30, 1985). Gross national savings from table 2.7 World Bank Report No. 5409. Distribution of income from World Bank, World Development Report, 1984. (New York, Oxford University Press for The World Bank, 1984), table 28, pp. 272-273 and World Development Report, 1986 (New York: Oxford University for The World Bank, 1986), table 24, pp. 226-226.

^ACalculated from projected budget figures rather than actual figures.

In addition, there is evidence of growth in corruption paralleling the increase in development assistance. This might indicate that a substantial part of the foreign aid provided has been diverted into the hands of unscrupulous elements of the community. This is more difficult to document since it is such a sensitive subject. However, the evidence that is available partly explains the shift in the distribution of resources away from the poorer class, for whom they were ostensibly meant. Evidence points to the wealthiest segment of the population as the final beneficiaries of much of the benefits of aid. Furthermore, there arises the question as to whether much of such diverted resources would ever benefit Bangladesh at all, since it is quite likely that some, or all, of such gains would be re-exported or spent on imported luxury goods.⁸¹ Interestingly, studies carried out on income distribution before the secession from Pakistan indicate that while there was no reduction in the share of income of the top 5 per cent of the population there was significant improvement in the income share of the bottom 5 per cent and the bottom 20 per cent.⁸² The trend appears to have reversed during the period following independence (see Table 4.2).

Why has this poor, relatively unimportant country been one of the world's major recipients of development assistance particularly when its strategic importance is limited, its economic importance to the donor nations is minimal, and its record for equitable distribution of aid, a stated objective of most donors, is poor?

Why have donor countries continued to provide aid apparently with little regard for the ultimate beneficiaries when indicators show that the percentage of the population living below the poverty line has been increasing?

An Aid-Dependence Paradigm

The concept of dependence as we have used it in this paper is that of John White and it is worth quoting his definition here:

The term "dependence" is used to mean a condition of constraint in which the "dependent" power is unable to make certain domestic choices, within some recognised and conventionally accepted set of options, unless some sort of permissive or enabling action is taken by the dominant power, and in which such constraints are very unevenly distributed between the two.⁸³

He then goes on to differentiate it from inter-dependence:

. . . Where such constraints are evenly distributed, one tends to speak of inter-dependence, which is a feature of the external relations of any country which is not completely autarkic, but is more conspicuous in the relations of developing countries with each other.⁸⁴

Dependence as it relates to foreign aid, therefore, means that the dependent country is unable to carry on the regular operation of its economy without some second country taking enabling action, i.e., providing, or continuing to provide, foreign aid. Many developing countries which accept foreign aid, are not dependent. That is to say, while they may accept aid, they have the option of rejecting it and still being able to continue the regular operation of their economy, albeit at some cost in growth or the provision of services. Examples might be China or India, although the latter has experienced periods when its options were dangerously limited by an over-reliance on foreign aid. The implications of dependence are that the options open to the policy-makers and leaders of the country are decreased, as they are increasingly constrained by the terms of donors, many of whom choose to influence their domestic policies. Some of the policies advocated by donors may be fundamentally opposed to the development philosophy the recipient espouses. If the recipient country has reached a stage of dependence, its leaders have no choice but to accede to the donors' demands. Otherwise they will be unable to carry on the normal workings of government. Worse still is the position of the dependent country that receives conflicting advice from different donors. It is worth noting here that "dependence" is not to be confused with "dependency" theory".

The term "appropriation" is used throughout the study to mean the use of aid for purposes for which it was not originally intended by the donor. As such it covers both misappropriation and diversion by the recipient government to legitimate, but unintended uses. The former case clearly covers corruption and malfeasance; the latter could entail such uses as the sale of food aid to cover administrative or transport costs.

We will explain, through the use of a two-country model, an "aid-dependence paradigm", how a country changes from one seeking increased self-reliance and a better life for its people, to one caught in a position where its main objective has become the acquisition of foreign aid in order simply to continue functioning.

In terms of international relations theory Rosenau describes the former as one that is "intransigently adaptive",⁸⁵ facing very strong demands from within the country. The phenomenon of dependence changes the nature of the country's foreign policy to

what he describes as "acquiescently adaptive".⁸⁶ The government of the dependent country's main preoccupation then becomes the attraction of foreign aid. Furthermore, we will show, in the case of Bangladesh, how it uses its extreme poverty as a rationale for continuing aid. However, the aid it receives contributes to an increasingly inequitable division of the very scarce resources available rather than to the alleviation of poverty or to the improvement of the standard of living of those who most need it. Increasing poverty in turn continues to serve as a justification for demanding still more aid.

The model will examine the role of the foreign aid donor and explain how the donor's modalities of giving aid, and the evolution of the aid relationship contribute to growing dependence. The development of this situation is, however, the result of an entirely rational chain of decisions by individuals and a politically logical approach to the use of resources by the recipient government or by those individuals. In other words it stems from the pursuit of rational expectations by the policy-makers.⁸⁷

By rational expectations we mean that people, in this case that the policy makers, form their views by taking account of all available information, including their biases as to how the economy works, and formulate their decisions accordingly.⁸⁸ The model shows that in the environment of a developing country there are frequently factors that make rational short term expectations less rational in the long term. In the short history of development assistance there is only beginning to be a "long-term" from which to draw our conclusions. Furthermore, the lessons to be learned for our view of the long term are not without ambiguity. Our definition of "rational decision-making" in the model is therefore as follows. Decision-makers will draw upon their experience and knowledge and apply it to solve the most pressing problems facing them. Problems that are less urgent will tend to be deferred until there is time, and the resources are available to attend to them. In the urgency of keeping a poor country functioning in the international economic environment with very limited resources, this may be a long time.

The government in our model does not consciously seek to exploit the less endowed citizens of the country, nor to favour those that are already relatively well off; they simply take decisions that will solve the immediate problems they face. Furthermore, the problem is not easily dismissed by the explanation that the inefficiencies are simply inherent in the system of any developing country. Many senior decision-makers in developing countries have experience in areas outside their home environment,

in such organisations as the international development banks, multilateral agencies or trans-national corporations. They have acquitted themselves well in those environments. Indeed, some examples are available where they have succeeded even within the environment of the developing country.

The model is composed of two parts. The first describes the country's reaction to a "resource windfall". The process takes place initially over a relatively short period of time. Therefore, it is not applicable to countries which, for example, are primarily dependent on natural resource based industries that have been developed over a long period or have developed an export-oriented agricultural sector. We term this sudden growth in access to resources a "resource windfall".

The second part of the model shows the symbiotic relationship that develops between the two principal parties: the established governing upper class which controls the economy and bureaucracy, and the aid bureaucracies of the bilateral and multilateral donors.

The model shows that even leaders of a country who have tried to improve the lot of the poorest of the poor have been led to a series of policies, when faced with the political realities of governing an emerging nation with scarce resources, well suited to remaining in power, but not necessarily appropriate to solving the problems of a population living at the very margin of subsistence. Furthermore, this misallocation of the resources that have been made available has to a significant extent subverted the society's traditional values leaving it even more open to abuse. The response of the donors is to accept the status quo. Thus, the provision of aid has continued.

The result is that decision-makers follow an entirely rational decision-making process in accepting all the aid that they can. They avoid making difficult decisions regarding the mobilisation and allocation of the country's very scarce resources. Donors continue to provide aid with little regard for the effects that it has on the long term economic objectives of the country's economic development and on the fabric of the society. Poverty remains a justification for aid. In other words poverty becomes a resource in itself. It is a political resource rather than a tangible one but, like a strategic geographic position, it can attract aid. The closest analogy might be a scenic environment in a country, which together with the appropriate information and infrastructure, attracts tourists and with them foreign exchange. Poverty with the

appropriate presentation, the right rhetoric, a few well publicised disasters, etc., attracts donors, and with them foreign exchange.

There are examples in the real world. The large number of refugees in Somalia attracts aid. The existence of the Palestinian refugees justifies the existence of the PLO and the funds that they seek to establish a Palestinian state.

There are several kinds of "resource windfall" sharing certain common characteristics. The type that we are concerned with in this paper is that of a sudden influx of foreign aid. It might be in the form of emergency relief which might follow a disaster, and which then evolves into a development programme. The "resource windfall" might also be caused by a change in the political acceptance of a regime, such as Zimbabwe. Another example is the 1987 Peace Accord signed between President Jayewardene of Sri Lanka and Prime Minister Gandhi of India designed to bring an end to the communal strife between the Tamil minority and the Sinhalese majority. Some examples of occurrences that stimulate an aid "resource windfall" might be natural disasters, such as the cyclone in 1970 in Bangladesh, the 1974 famine in the same country, the Sahelian drought of the early 1970s, the Ethiopian drought of the same period, the Ethiopian drought of the early 1980s, or the earthquakes in Nicaragua and Mexico. A "resource windfall" of foreign aid may alternately be a response to a man-made disaster such as the American effort to win the "hearts and the minds of the people" in South Vietnam during the war. Another was the influx of Americans into Cambodia in the early 1960s and again following the invasion of that country in 1969. Yet another comparison might be the Philippines following the demise of the Marcos regime and the assumption of power by Mrs Aquino.

Other examples of "resource windfalls" might be the discovery of oil, or a rapid rise in the price of oil or some other natural resource, such as has happened in Nigeria, Indonesia, the Middle Eastern countries, the United Kingdom, Norway and others. These do not share the same international relations context that aid has, because the resource originates from within the country, although there is an international context since the wealth is derived from its value in the international marketplace. Another sort of "resource windfall" might be the sudden influx of capital for a project such as the building of the Canadian Pacific Railway in the late nineteenth century.⁸⁹

A further, but slightly different, example of a "resource windfall" is the rapid growth in production of the raw material for the manufacture of narcotics. There is an international relations context in this case, and while it may share some of the attributes of foreign aid as countries search for alternate resource generating occupations by attempting to introduce new crops, the international relations context is quite different because there are conflicting forces: one, the drug cartel, is trying to encourage the growth of the resource; the others, domestic and international drug enforcement agencies, is trying to discourage the growth of the resource.

What makes the case of aid interesting is that the resources being provided are the result of largesse on the part of a group of countries outside the recipient country. It is fair to presume that they have certain expectations about how their resources are put to use. The perceptions and reactions, or lack thereof, of these donors to the effects of the aid that they provide form the second part of our model.

The more developed the country, the less attractive this kind of windfall is to those who would "appropriate" it. Relief goods, for example, are of less interest to a well endowed population of a with a relatively egalitarian distribution of income than they are to the population of a very poor country with very little in the way of material goods. Thus, the misuse of relief goods tends to be higher in a very poor country than it is in a wealthy country.

Clearly the degree of dependence that the "resource windfall" generates will differ from case to case, although it is probably present to some degree in most examples. For example, the Norwegian economy has both benefitted from a "resource windfall", North Sea oil, and has suffered from the fall in the international price of oil in the middle 1980s. The strength of the country's social institutions, however, precluded it from conforming to the model we propose for developing countries. Other developing countries, such as Tanzania and Botswana, have survived the "resource windfall" with less effect perhaps because the windfall itself was slower in coming, but more likely because of the integrity of their leadership and the strength it provided to the country's institutions.

It will be easier to conceive of the effects of this if it is presented in the form of a narrative describing our hypothetical two-country model in which the following actors take part:

Country A	The recipient, a low-income country.
Country B	The donor, an industrialised country also having trading interests.
Importer M	An established agent and contractor in Country A representing Manufacturer X.
Importer N	A new agent who responds to new market opportunities and represents Manufacturer Y.
Manufacturer X	A manufacturer of transportation equipment in Country B who is a traditional exporter to Country A.
Manufacturer Y	A competing manufacturer of transportation equipment in Country B who is not a traditional exporter.

Phase I: the origin of the windfall: Country A is independent and has a large peasant population engaged mainly in subsistence agriculture in the informal sector. The small upper class are for the most part engaged in the modern sector. Agricultural produce is the main export crop and the proceeds therefrom are the prime source of revenue for government. As with most mono-crop economies, Country A suffers from the fluctuations of the international marketplace, deteriorating terms of trade and balance of payments problems. The revenue that accrues to the government has hitherto depended on the relatively low rate of private savings, some overseas investment and possibly some foreign aid to finance investment. Growth has been slow because resources are limited. Country A is characterised by a dual economy comprising traditional and modern sectors. The investment that has been made to date has been largely in the modern sector, because the traditional economy is difficult of access. Some organisations for tackling the problems of the development of the rural areas are in the process of formation, but still in the embryonic stage. Social infrastructure is minimal, literacy rates are low and markets, even within the country, relatively undeveloped. The traditional customs of the country such as the extended family, etc., tend to provide the care and services which in the industrialised countries are part of the social welfare system.

The political system, has been modelled on a western democratic model, but has evolved into a system where the political power is in the hands of a minority, linked by family ties or business connections, and having in common the benefits of education and comparative wealth. It retains the trappings of democracy. Even the members of the judiciary are drawn from this same relatively small group of people who make up the upper class. This makes it is subject to the same rules as the rest of the elite. In short our hypothetical Country A has the characteristics of most underdeveloped countries.

Country B is a modern industrialised nation with a strong surplus agriculture sector. It exports both agricultural produce and finished goods. It maintains a small embassy and relations are cordial.

The "resource windfall" of foreign aid has been a response to a major crop failure. The reaction of Country B is to give food aid in order to alleviate the possibility of starvation or widespread malnutrition. This also provides balance of payments support since Country A would otherwise have to import food to make up the shortfall.

Whether Country A is a food deficit country or not, the usual response to an emergency is with food aid. This is because food is the fastest disbursing form of aid. Conceivably Country B might have responded first through an international emergency relief organisation, and may do so in any case, but Country B wants the much higher political visibility that comes with bilateral aid. Country A is the sudden recipient of a large quantity of food.

The first reaction of the government to the "resource windfall" is to allocate it to the traditional sector which comprises the majority of the poor, who have been most affected by the disaster, by distributing food to them. Problems are encountered in the distribution of the food aid because the inadequate transport facilities which exist rapidly become congested. Therefore, not all the food can be distributed. Once an initial effort has been made to allocate some of the resources to those who have suffered, Country A requests Country B's permission to divert a portion of the food aid for public sale. The proceeds are to be used to make up the deficiencies of the transport system and to monitor the distribution. Permission is granted. An allocation is made to investment in the modern sector for new trucks to improve the efficiency of distribution to the traditional sector ("appropriation" of aid by government). All this takes time and while

the food is in storage, pilferage occurs ("appropriation" through low level corruption). Monitoring at this point is not yet in place and, therefore, controls are inadequate.

Country B has an embassy in Country A, but Embassy personnel are unable to detect pilferage since there is unlikely to be anyone experienced in the bulk handling of food grains. Pilfered food is either put onto the market or smuggled to neighbouring countries to be sold. Even if theft becomes blatant and is detected, there is little that the embassy can do about it other than to make representations to the government of Country A. They are given assurances that steps to monitor the food transportation more carefully have been taken.

Country A's government turns to the private sector to acquire more trucks. The Government hires more personnel to run and maintain an expanded transport fleet and turns to contractors to supplement it. In the small modern transport sector private contractors vie for the contracts to supply trucks to the Government. They are prepared to pay inducements to the decision-makers for them (high level corruption). A well established private domestic contractor with friends in the government, Importer M, is awarded the transport contract. He represents Manufacturer X.

Truck Manufacturer X is an established builder and exporter of trucks from Country B. The contract is awarded at an inflated price. The excess profits are kept outside Country A to avoid exchange controls. This is done by over-invoicing.* Profits may be invested abroad or spent on luxury goods. This allows Importer M to maintain foreign exchange abroad either for offshore investment or to spend on luxury goods. Manufacturer X has developed a new or expanded market for which he has paid inducements through Importer M to officials in Country B to maintain his position in the face of competition from other importers (high level corruption from outside). Importer M has become dependent on government contracts, and indirectly on food aid, to maintain his enterprise and his higher standard of living.

The government of Country A has come to rely on "appropriated" aid to cover the distribution of the food. Since this is a time of hardship, it has deferred the imposition of taxes to cover the new costs. Nor has it decided to forego any other activity to economise. Some food aid, originally destined to ward off a potential famine,

*The foreign exchange monies are not all paid to Manufacturer A. The difference between the real cost and the inflated price charged for the equipment, is banked offshore in the name of Contractor M.

is used to cover day to day recurrent administrative costs in the transport sector. The withdrawal of the food aid once it is no longer required would result in the necessity of the Country A's government releasing newly hired government employees, not a politically popular step. The Government of Country A has become dependent upon continued supplies of food to maintain a part of its civil service establishment.

This reallocation of the "resource windfall" supplements the resources of the state, at least on a temporary basis, and is justified to make more effective use of the "resource windfall". This is a better alternative for Country A's government than taxation. The use of the "resource windfall" to defer increases in taxation, particularly direct taxation, on a "temporary" basis is perceived as a great advantage by Country A's decision-makers. Finally, the government of Country A uses some of the funds generated to hire additional drivers to drive the new trucks and new personnel to monitor the food delivery.

Phase II: Consolidation of the windfall: The response of Country B to the event which triggered the "resource windfall", a major crop failure, leads to closer political ties between the two countries. This, together with the response of private citizens in Country B, leads to increased awareness of the needs of Country A. Increased awareness in turn results in both private aid through non-governmental organisations and longer term food aid to supplement the emergency food aid. Thus, the consolidation of the windfall "resource windfall" occurs.

Distribution of the food aid in the traditional sector proves to be difficult. There are few institutions equipped to absorb and distribute it. The institutions that do exist are not sufficiently developed to handle the greatly increased flow very effectively. An increasing portion is, therefore, sold to support other activities. Since Country B has given the food aid for developmental reasons, it stipulates that the funds derived from it cannot be used for direct budgetary support. They must be used for development activities.

It follows, therefore, that the development activities take the form of investment in social infrastructure such as schools, roads and bridges. These are attractive investments because it is possible to use the private sector to carry out the physical construction of such infrastructure. A village school, no matter how badly built, can be verified and is tangible evidence of the investment, and attests to government's sincerity

in attempting to direct increased resources to the traditional sector. Improved health training, more teachers, better agricultural services are also promised to staff the new facilities. This gives the decision-makers within the government of Country A the opportunity to use the "resource windfall" as a form of patronage.

There emerges, therefore, a vested interest among the clients in seeing the resource flow continue, and there develops a group of middle-men who assume certain roles, representatives, agents, customs clearance agents, influence peddlers, "facilitators", etc. These outsiders who benefit have an interest in seeing the flow continue. Furthermore, to the Government, there still exists a need for imports because of the revenue they generate within the country.

One of the effects of the "resource windfall" is bound to be inflation. The amount of new resources is large in terms of the country's total resource endowment. Increasing demand will bid up prices in an environment of relative scarcity. Personal expectations in the civil service, as elsewhere, will rise as others around are seen to benefit, but remuneration in the civil service will diminish both comparatively, with increased resources going to the private sector, and absolutely in the face of inflation. Decision-making has become marketable. A patron-client relationship grows between the businessmen seeking remunerative work, either directly or as agents of foreign companies, and the decision-makers.

The award of contracts begins, but the capacity of the government and the donor to monitor progress is limited. Abuses occur and with a weak system of law and order nothing happens. The legal/judicial system has not yet adjusted to the new tempo or benefitted from the new resources.

If a strict moral and legal code is in effect and people feel that they are reasonably well off the payment of inducements may well be nipped in the bud and violators of the law persecuted. In the case of a poor country this is unlikely to happen because even the middle class are not very well off when compared to the middle-classes of the developed countries. In a country where aid, with expensive technical assistance, is in evidence this division becomes increasingly obvious. In order to sustain the system, inducements are therefore shared with others to keep them satisfied.

Decision-makers are the key to access to this resource for those who have limited resources insufficient to finance the overseas training. Beneficiaries are selected

because they are available and because there is a premium to be gained from their selection. Decision-makers are susceptible to inducement. There is a government bias against technical assistance. First, outsiders are bound to try to influence the manner in which the resources are used. Second, their remuneration is a great deal larger than that of their counterparts and thus become a source of resentment. The greater remuneration that they receive is also likely to make them less susceptible to inducement.*

As the boom in truck imports continues Importer N seeks to establish his position, and obtain a share of the new resources, by offering favours to decision-makers, people in influential positions in government ranging from the country's political leaders, through civil servants, to locally elected officials in local councils, in return for consideration in the allocation of the resources. There is a feeling of urgency that he must acquire his share as quickly as possible while the windfall lasts.

Meanwhile, exporters from Country B are vying for what has become, with the new resources now available, a growing market. Manufacturer Y sees an opportunity and turns to Importer N to try to penetrate the truck market. One of the most effective means of breaking the hold of those established importers is to offer more inducement to the decision-makers. Despite increasingly stringent domestic regulations against such payments in the export countries, Manufacturer Y is usually willing to take the risk and ensure that adequate inducements can be paid. He can do this, first, because the amount of inducement in a developing country is not comparatively great, and second, because it is almost impossible for the government of Country B to differentiate between a legitimate agent's commission and a legitimate agent's commission with sufficient surplus to pay an inducement to a decision-maker.**

The officers of the Embassy of Country B, one of whose functions is to promote trade, ignore wrongdoing, first, because they are probably not aware of it. Second, even if they are aware, they find it almost impossible to prove wrongdoing in their own courts given lack of cooperation in Country A. Third, because they would conceivably not be able to find support from within the bureaucracy or leadership of

*This is not always true and Lifschultz in *The Unfinished Revolution*, p. 41 recounts how at least one foreign relief worker managed steal over \$1,000,000 and to finance the purchase of a hotel in Sardinia during the 1974 Bangladesh famine.

**The Lockheed scandal was an example where the amounts paid were so large and paid to such senior people that it became impossible to hide. It emerged because the people who wanted to expose it were relatively well off and not motivated by need, hence not as susceptible to inducement.

Country B's government. They do not want to be seen to be in conflict with Country B's trade objectives, particularly when the companies, Manufacturers X and Y, which stand to gain, may be the patrons of a party in power in Country B.

It does not take long for the administrative system of Country A to be undermined. Decisions are no longer made on a basis which meets development needs, but rather for personal gain. When many individuals within a system are compromised the whole system becomes compromised. The efficiency of the administration suffers because it is impossible to enforce authority without becoming vulnerable, although punishment for wrongdoing will still be meted out if it is so blatant as to be embarrassing to those in power.

At more senior levels, relations between officials of both countries become closer. This is supported by discreet lobbying by Manufacturer X who wishes to maintain his market. Country B decides to mount a complete development programme of regular food aid to supplement the emergency aid. The embassy is given an aid section to administer the programme. The net addition of food that is sold on the open market accrues to the government of Country A as additional revenue and reduces the need to raise taxes. Supervision is improved and pilferage is reduced, but the systems for diverting food both legally, to cover administrative expenses, and illegally, to compensate decision-makers for making the "right" decisions, are already established and functioning. Short of monitoring the food at every step, from the ship to the mouths of the people, clearly impractical given the structure of the aid administration system, it is supposed to feed there is virtually no way the aid personnel of Country B can be assured that it all gets there.

The Embassy in our model now also comprises the overseas arm of Country B's foreign aid agency that is delivering aid in addition to fulfilling its trade function. With the "resource windfall" component of our model defined, let us examine the role of the embassy with more specificity in our example.

We must bear in mind that it is not the supply of food per se that causes the system to start to break down. It is the provision of a large quantity of a resource that strains the existing system, in our example, transport. This creates precedents, selling some of the food and contracting the transport, which, once established, in a manner that

makes them vulnerable to abuse, causes the existing system, hitherto honest, to start to break down.

It would be possible to develop the model further, but it may be of more utility to return to the real, and much more complex world, in order to analyse the reactions to a "resource windfall" that has actually occurred in Bangladesh. Other examples will be reviewed in Chapter VI.

The model will be used to trace the origin and growth of aid in Bangladesh in the following chapters. Bangladesh is, however, by no means a unique situation. Sri Lanka, Ethiopia and the countries of the Sahel all offer similar models. The only additional element that we will have to consider with the addition of foreign aid for relief is the transition from aid provided for relief to aid designed to promote the development of the country.

The term development is more open to a number of interpretations so for the sake of clarity we will adopt the definition of development given by John White:

Development is a process of social change which:

1. Increases the total benefits available;
2. Distributes new benefits in some inverse ratio to the distribution of benefits already acquired;
3. Offers some assurance of being a process that can be sustained over time.⁹⁰

This then is the theoretical objective of development assistance. This differentiates it from emergency relief aid, which is aimed at the alleviation of suffering caused by some disaster, natural or man-made. Emergency aid is designed to relieve those who are suffering and, if possible, to restore them to the same standard that they enjoyed before the disaster. It consists of a basket of standard responses depending on the nature of the emergency. These might be the provision of food, clothing, shelter and medical supplies designed to increase the total benefits of a particular part of the population. Hence, distribution among different socio-economic groups should not be an issue, although we shall see that it does, indeed, become an issue.

We are now faced with a problem. We have seen from the above the use to which the "resource windfall" is being put does not coincide with the definition of furthering the development of Country A. The first part of the definition of development is met and the total resources of the country are increased, whether by the exact amount of aid provided or not, is not necessarily determined. There may be some

leakage as illegally acquired gains are exported to safe havens. The second part of the definition is not met. The additional resources are accruing to those who already have benefits in a direct ratio rather than an inverse ratio. The third part of the definition is clearly not being met. Relief aid is by definition transitory. It must now be converted into development aid to begin the next phase.

The resources provided are not going to make the poorer elements of society more productive, although they may conceivably be invested and contribute to economic growth. As we have seen growth is not necessarily equated with development.

With the introduction of a foreign donor we are faced with another complication. Since we are considering a "resource windfall", in this case in response to a crop failure. Those who have suffered most from this disaster are likely to be a clearly identifiable segment of the population: people without access to food. Donors who enter the scene for this reason will be interested in providing relief, in making available resources to those who suffered to correct the problem and return them to the same state that they were in before the disaster.

Relief programmes are usually mounted for humanitarian reasons alone. Given their suddenness and their unexpected nature, it is unlikely that donors enter into relief programmes for the political and economic reasons that will be outlined in Chapter II. The primary motivation is humanitarian. The experience in Ethiopia supports this contention. Despite the fact that there was a Marxist government with close ties to the Soviet Union in power at the time of the famine in the early 1980s, most emergency relief aid came from the western countries. Their governments were moved to action by individuals and groups shocked by the reports of famine that trickled out. Few western countries had substantial development programmes in Ethiopia at the time.

In order for the relief aid to evolve into development assistance there must be some reason. This will differ from country to country. It is usually for the reasons outlined in Chapter V, political, economic or humanitarian, or a combination of them. It is conceivable also, but less likely, that following the relief effort, aid reverts to its previous status at a significantly lower level. There are several reasons why this is not likely to happen except when the political philosophies of the two countries are diametrically opposed. The domestic public of Country B contribute to an emergency through private non-governmental agencies, and, therefore, some elements in Country B's

community will develop a continuing interest in the recipient. New political linkages are also forged by the provision of relief aid, as are in time, new economic linkages. The development problems of Country A are perceived in a new light by the government and citizens of Country B. Interest may be stirred amongst parliamentarians and this factor alone can be important in the level of aid a country receives.⁹¹ A new relationship is formed and a coalition of interest groups develops, business, humanitarian and political, with an interest in transforming the relationship to a more permanent one. Depending upon the sophistication of Country A's government they may even make a deliberate effort to cultivate Country B's media and government officials with a view to continuing the new partnership.

Three areas are not so clear, however; the tolerance of impropriety by Country A's civil servants and members of Country A's government in the dispensation of inducements that may not be in the public interest, and the ostrich-like attitude of Country B's diplomats, for example. There are too many factors that could sway the argument one way or the other that are not included in our model. The complexity of dealing with misappropriation may vary from government to government amongst donor countries, or even from ministry to ministry within a donor country. The attitude of trade promotion people may be a wink and a shrug to a practice that goes on the world over. An aid administrator might take a different view, but he would think twice before jeopardising an important commercial transaction, even if it was financed by aid. A Ministry of Justice would likely take a very stern view of a bureaucrat's responsibilities, but whether it would be translated into action is moot. In the meantime a bureaucrat who might have cost a company considerable sums would be very vulnerable indeed. Suffice it to say that there is evidence, which we will see in Chapter III, that blatant corruption is ignored by donor governments who are torn between the desire for accountability and the fear of being criticised for callousness.

Nevertheless, we have identified some key decision points that bear further analysis. We will show in subsequent chapters that some kinds of foreign aid have been a major contributory factor in the increasingly inequitable distribution of income. Furthermore, the donors who have emphasised their desire to help the poorest in society appear to be oblivious that most aid does little towards improving the quality of life for the poorer parts of the society. Problems that have been identified continue not to be

addressed. Aid continues to flow in much the same manner as it did before the problems were identified. In sum, we find that much foreign aid is not contributing to development as we have defined it.

The final stage, that of dependence, comes when the government can no longer continue to operate a viable economy without aid. When the proportion of aid that has been "appropriated" by the government is critical to the continued operation of that government, and insufficient alternative sources of revenue exist to replace those resources, then we can say that it has become dependent, the normal functioning of the government ceases and it is replaced by a system imposed by whatever group was able to wield enough power. Alternatively, it results in anarchy. The dependence stage may be inevitable for some countries that simply do not have the resources to be viable and self-sustaining, but for others it is brought about by an over-reliance on external resources and a neglect of the development of the country's own potential. Despite this, donors have continued to provide economic assistance with little critical analysis of the negative effects.

Some Limitations to the Model

This very simple example of a two country relationship has a number of limitations. It cannot replicate precisely the problems that a developing country faces in the real world since these vary from country to country and from region to region and even among different regions in the same country.

The relationships among countries, particularly among developed countries and low-income countries vary widely depending on the political nature and economic situation of each. In Chapters II and V, we will examine the motivations for both accepting and giving aid and see that they vary widely. What the model is designed to do is to highlight some aspects that bear close examination in the context of the particular country, or countries, that we are concerned with. It is a road-map showing us the route, but not the scenery.

As we see in Chapter V, donors too have widely varying motives for providing aid, ranging from those who take a continuing interest and even participation, in the management of the economy and making their assistance contingent on certain

economic and political policies being carried out, to those who provide aid on a once-off basis as a gesture which that be a response to a disaster or a symbol of solidarity at some political stance.

The external economic environment will have considerable bearing on the manner in which different countries utilise foreign aid. This means that reactions will differ over time depending upon whether the external economic environment is having a positive or negative effect on development at any particular moment in time.

The cultural aspects of both donors and recipients vary. As we will see in Bangladesh, one of the aspects of the society is concerned with the patron/client relationship. Similar phenomena are observable in other countries and we find that particular traits or customs in the society have much to do with the manner in which foreign aid, or for that matter, some other "resource windfall" is treated.* In Bangladesh the concept of daya, grace or blessing ". . .implies an indulgent redistribution of wealth, abstract goodness, and personal aura. It is an essential component of the Bengali conception of hierarchy."⁹² Likewise, in Bangladesh, the personalisation of authority⁹³ and the appearance of excessive authoritarianism⁹⁴ lead to different reactions to the appearance of wealth than would be regarded as acceptable in Western society. So when we refer to inducements being paid in our model, they are not necessarily done in the same cultural context as bribes would be regarded in the United Kingdom or Canada. These variations make the assessment of the impact of development assistance very difficult to ascertain. Should its impact be assessed in terms of the prevailing customs of the donor or the recipient? This study does not pretend to provide an answer to this question, but it does raise it as a difficulty faced both by donor and recipient in the provision and utilisation of foreign aid.

The country's resource endowment has an effect. The resource endowments of various developing countries vary widely from the oil rich countries of the Middle East to the micro-states of the Pacific. The domestic development of local wealth, such as the nationalisation of gold mines in Ghana, or allowing its controlled exploitation by outsiders, such as the policy followed by Botswana, are examples. These situations vary

*For example in West Africa origins of the "dash", a tribute of respect paid to someone senior, was frequently misunderstood by Westerners. The traditional custom, while retaining its original meaning, was over time corrupted by the increase in resources available to become a bribe rather than simply a token of respect.

widely with such factors as the political views, educational level, access to financial resources from country to country and result in widely differing results. Differing political philosophies in turn lead to different utilisation of foreign aid.

The strengths of individual institutions vary widely. Some institutions have developed, through good management and continuity of leadership, into organisations well equipped to administer a "resource windfall". Others are barely capable of continuing to operate. Although governments tend to be associated with one type or another of the two extremes, many variations are found in between. Some examples of these success stories, developed by strong institutions or individuals, are described in Chapter VI to show that even a chronically unstable country such as Bangladesh, has the potential to succeed when given the opportunity.

A Hypothesis

From the model it should be possible to formulate a hypothesis that will predict the likely course of events in the event of a "resource windfall". The aid resources that accrue to a country are used to further the economic and social development of that country, assuming the ruling government has as an objective the improvement of the interests of the majority of the country's population as one of its foremost objectives. A proportion of the aid resources is deducted by the government as a charge for facilitating the channelling of resources to the poorer elements of the society. Some resources will also be "appropriated" by the wealthier elements of the society. However, as long as the available amount of the resource remains relatively scarce, and any significant diversion would be readily noticed, the rule of law will moderate the amount that can be "appropriated". When the resources provided begin to exceed the opportunities for investment, the proportion that can be "appropriated" will rise, and to a new higher proportion. As government seeks to optimise the activities that were funded with its share of the resources, the upper class will seek to further improve further their standard of living. The rationale for permitting this is that misused resources are better than no resources at all.

When the situation is reached where the resources exceed the opportunities for useful expenditure for the purpose for which they were provided, the two parties closest

to the resources, the government and the upper class, will find alternative uses for the resources rather than refuse to accept them. The resources in excess of absorptive capacity will, therefore, benefit the government and the upper class, but not the poorer elements of the population. This is so because the channels by which resources are delivered to the poorer elements are congested. Part of the portion "appropriated", being illegal gains, will not be taxed and will probably be largely removed from the system through deposits in foreign accounts and or expenditures on foreign made luxury goods.⁹⁵

It is possible to predict that, if the amount deducted by the government plus the amount "appropriated" by the upper class exceeds the proportion of income distribution that the upper classes receive, then the foreign aid, even in a period when aid is rising in real terms, will tend to result in a negative distributive effect.

Put in a slightly different way, if the ratio of aid "appropriated", deducted by the government plus the amount diverted by the upper class, to the amount of aid spent on the poorer elements of the society exceeds the ratio of income distribution between the upper class to the poorer classes, taking into account both aid for consumption and for investment, then, other things being equal, the foreign aid will tend to increase the proportion of wealth in the hands of the rich and decrease the proportion in the hands of the poor. It should be borne in mind that one of the main characteristics of developing countries is that they have a small upper class in proportion to their poorer classes and exceptis excipiendis an unequal distribution of income. The upper class generally controls a large proportion of the resources and commands a greater share of the income. The implication for donors is that in order to bring about a positive shift in income distribution it is necessary to concentrate a larger proportion of aid on the poor than their share of the existing income distribution. Thus, as long as a greater proportion of the investment is spent in the modern sector where, in the short term, it will benefit largely the upper class, since the poorer classes are for the most part in the traditional sector, it will tend to shift income distribution further toward the upper classes.

It is possible to posit further that if the "resource windfall" lessens, the proportion that has been "appropriated" will rise since, as the upper class control the allocation of the resource, they will seek to preserve their share in real terms, although demonstrating it goes beyond the scope of this study. The government will behave likewise, having institutionalised its "appropriated" portion, and will continue the activ-

ities which originated when the aid started. Consequently the amount of the resources devoted to the economic development and the social betterment of the poorer elements of the society will diminish, not only in proportion to overall resource availability, but by a greater factor, as the government and the upper class seek to maintain their share in real terms.

The upper class, having gained influence by virtue of their access to greater resources and consequently the ability to influence the decision-making process, will also be better able to influence the government to preserve its share, should the flow of resources lessen. This in turn will result in increasing economic problems for the poor which will justify a renewed appeal to the donors for more aid. Donors may at some point demand some concessions on the part of the government in terms of the economic policies that they are pursuing, but they are unlikely to direct greater amounts of aid toward the poor elements of the society. Thus, as the share of the poorer elements decreases there will be increasing justification for increased flows of the resource to counteract the continuing or increasing need.

From the perspective of the donor there are many factors in addition to the betterment of the lot of the least advantaged that govern both the eligibility of a country for foreign aid, and the quantity of aid that it is prepared to make available. The situation will appear stable, at least for some period of time, and the donor will continue to provide aid, subject to its availability in the face of conflicting domestic demands. In an aid environment in which total aid is not growing in real terms the process described in the two preceding paragraphs will occur, albeit not in as dramatic a manner as it would in a case of aid decreasing in real terms. The process is, however, dynamic rather than static, and at some point there is likely to be either dissent (rebellion or revolution), a depression or some other internal event which causes disruption in the recipient country. Likewise the donor country will continue until the diversion of resources begins to cause domestic political problems at which point it may, as a final resort, cut aid, thus resulting in an acceleration of the process.

Evidence Required to Substantiate the Model

From the simple model that we have outlined above it should be possible to draw some conclusions as to the characteristics and evidence of dependence which would be found in a real country caught in the same predicament as our Country A. In the Chapter II we will look at conventional development theory and the characteristics that we would expect to be found in a country which conforms to conventional theory. In Chapter III, we examine a real situation, that of Bangladesh, and compare the evidence with the predictions from the "aid-dependence paradigm" and the predictions from the conventional theory.

The political economy of an aid-dependent regime. In considering the evidence that would support the dependence paradigm and its impact on the political economy, one would expect the regime to be characterised generally by an ineffectual approach to the process of promoting development. The leadership and the administrative machinery, inexperienced and weak, have never had the opportunity to develop and mature. They would be unable to cope with the difficult choices to be made regarding the allocation of resources. Instead, the administration's concern would focus on the objective of consolidating the power base with the objective of achieving sustained stability and growth, although rhetoric will pay appropriate attention to the problem of poverty. We expect a tendency on the part of the leadership to equate the conferring of favours upon political supporters with the sharing of benefits with the population as a whole. Political supporters would sustain this misconception. Gradually the resources available would be directed to short term objectives as problems arose. Increasingly resources would be "appropriated" to meet the requirements of patronage. We would also find that the government would seek to divert attention from troubling economic issues by emphasising a common mutual danger, loss of cultural identity, a hostile neighbour, etc.

The bureaucracy in turn, even that part of it that was not compromised, would fight a losing battle in trying to convince political authorities to devote more resources to a coherent development plan, as the temptation for patronage proved increasingly irresistible to a yet immature political leadership.

The result would be a loss of the idealism which had characterised the country before the "resource windfall" and a reduction in expectations of what it could potentially accomplish. This loss would result in the departure of those who maintained integrity, the co-option of many who did not, and the increasing isolation of those who were honest, but did not have the luxury of alternative employment elsewhere.

The quality of administration would consequently not improve quickly as turnover occurred and new players entered the system as part of the patronage package of the political leadership. This too would contribute to the decreasing efficiency and increasing corruption and would consequently lessen the ability of the bureaucracy to deal with legitimate problems. In the rest of this section we will examine a number of specific areas with a view to identifying what evidence we would expect to find.

In short the regime would be characterised by:

- Short term objectives,
- A loss of idealism,
- Poor administration.

The Food Distribution System. Because a government food distribution system exists in Bangladesh, it is worth some detailed consideration. It is the mechanism through which the largest homogeneous element of the foreign aid which formed the original "resource windfall" passed. Food rationing systems, while not universal, are certainly not rare in the developing world. Countries such as Egypt, Ethiopia, India and Sri Lanka have all used various means to distribute food, particularly in times of crisis. Secondly, since it is a basic staple, food has potential impact on growth in the agriculture sector.

The system in Bangladesh was originally established in 1943⁹⁶ to ensure that there was no repeat of the disastrous Great Bengal Famine of that year. Potentially such a system, in addition to providing an emergency reserve, could also have such a far reaching impact both on the price of food and the market for agricultural produce. It could ensure that the poorest in the society are assured of one of the basic necessities at a reasonable price. The Food Distribution System in Bangladesh has absorbed almost 25 per cent of the aid provided between 1971 and 1975.⁹⁷

In our "aid-dependence paradigm" such a system, which has been designed to distribute a basic necessity to the society in very large quantities, is likely to be subjected

to abuse, both in the political sense, because such a redistribution system is a powerful tool given the resources it commands. We would expect almost any government to be unable to resist the temptation to "appropriate" some of the resource in order to meet administrative and patronage obligations. We should also expect to find that there was widespread abuse of the system by the bureaucrats and politicians responsible for its distribution.

Where a part of the resource is obtained at little or no cost and a government is able to subsidise the distribution of a resource at little cost to itself, there will be less stringent controls on the manner in which the proceeds are used. An important complementary factor in this is that the nature of food aid, where it is distributed in substantial quantities, i.e., "dumped" by food-surplus countries, is that it is not fungible in terms of alternate forms of foreign aid. It, therefore, has no opportunity cost. The refusal of food aid, in the hope of obtaining aid in another, perhaps more useful form, would likely result in a reduction of aid, because food donors are unlikely to be willing to convert the food into an equivalent of some other form of aid.

The Food Distribution System would be characterised by:

- Diversion and misuse of food,
- Growing importance as a general source of revenue,
- Growing importance as a tool for retaining power over resource distribution.

Agriculture. In our model a growing elite was "appropriating" funds or resources where they were relatively abundant. Given that the agriculture sector is the largest sector both in terms of employment and as a proportion of the GDP in most developing countries, there will be an effort to target a substantial amount of aid there. It is, however, a traditional sector and experience tells us that it is one of the most difficult sectors in which to mount programmes because of the lack of modern institutional development. Agricultural investment is different from that in other sectors, particularly in modern sectors such as energy, where investments in such things as generating plants and transmission lines are relatively straightforward. It is, rather, geographically diffuse and made up of a combination of small investments in different areas all of which have to function in consort with each other. Even where the possibility exists of making large investments, such as in irrigation schemes, these are very much more complicated than a

project that deals with a single organisational entity, such as an electrical power board which is centralised and functions largely in the modern sector.

We would expect an agriculture sector that was basically conservative and resistant to change. The government reaction to this would, in the face of lack of progress, be to mount periodic crash campaigns, largely of rhetoric designed to impress donors, but most investment would be geared to the modern sector or, if in agriculture, to the modern part of that sector which is concerned with capital intensive, high technology projects. Irrigation and mechanisation are the logical sub-sector to attract such investment, but if there is a weak institutional base the benefits are likely to accrue largely to those who are better off. Agriculture would not likely be a sector of dynamic growth.

Furthermore, the profits that do accrue from agriculture are unlikely to be reinvested in productive investment given the weak institutional base. With alternate investment opportunities limited, the traditional investment in a tangible asset such as land would tend to attract funds from other areas and bid up the price of land. We would not, however, expect there to be much of a corresponding increase in the productivity because absentee ownership does not usually increase productivity, and tenant labour has little incentive to invest in the improvement of the land without some assurance of security for that investment.

A weak government administration would fail to mobilise the inputs required for any dramatic increase in productivity resulting in unreliable and haphazard delivery of such essentials as seed and fertiliser to the areas where they are needed when they are needed. Even in a system reverting to a private sector approach, the controls on purchasing, etc., will be constrained by the inefficient functioning of the market and the weak institutional base to deliver both technology and credit. The result will be the loss of confidence of the farmers and a reluctance, given the traditional peasant's inborn conservatism, to adopt new higher yielding methods of cultivation.*

*Traditional peasants are often reluctant to abandon the practices of their forefathers because, fundamentally, they worked. The problem is that with such pressures as population, wasteful agricultural practices, for example, "slash and burn" cannot be sustained. The problem is not so much convincing traditional farmers to change. They will. Once! When the necessary inputs, HYV seed, fertiliser, etc., fail to arrive on the market the next year they will revert to traditional practices, and having risked and lost once, will become risk minimisers reluctant to take chances the next time some extension worker comes around with a good idea.

Finally since we have included the Food Distribution System, which relies on imported food to supplement consumption, there is likely to be a reduction in the market for domestic food. This would tend to depress prices to a point where it reduces the incentive for increased investment in high yielding varieties (HYV) of seeds and fertiliser in order to be able to attain greater productivity.

The agriculture sector would be characterised by:

- Appropriation of resources,
- Concentration on capital intensive investment,
- Lack of effort in the area of institutional development.

Economic growth. With sources of productive investment constrained by the poverty of the country and the loss of savings, most investment will derive either directly or indirectly from foreign aid. Economic growth will not necessarily be poor. This will depend on a number of factors: the external economic climate, terms of trade, the amount of investment in productive enterprise from savings and aid, as opposed to consumption or investment in non-productive enterprises and luxury goods. Growth will, however, generally be concentrated in sectors of the economy where it is relatively easy to invest: energy, industry and infrastructure. Thus we may find that aggregate growth is quite acceptable in traditional economic terms, but that it benefits only a small proportion of the population.

Economic growth would be characterised by:

- Acceptable, or even healthy, growth in the modern sector,
- A stagnant traditional sector.

Business and industry. Under the conditions posed in the dependence paradigm we expect to find that business was geared more to the procurement and importation of goods than to their manufacture. Consequently investment would tend to be mainly in the business of importing, where there is quick turnover and high profits. As the "resource windfall" continued to generate profits for the middle class, there would be a tendency for the growing middle class to become a pressure group attempting to influence government to continue to seek aid. The pattern of business development one would expect to find would favour trading and there would be idle capacity in of the industrial sector as goods tended to be procured outside the country with aid funds. Profits will not necessarily be invested in the country for a number of reasons. Windfall

profits attract attention, hence, will often flow to bank accounts outside. Capital markets inside the country are relatively undeveloped offering little opportunity for profitable investment. What remains inside the country is often spent on luxury goods or land.⁹⁸

Aid financed investment may well be under-utilised for two reasons, first, the pressure of local agents to import because of the quicker profits and, second, the propensity of aid agencies to favour the importation of goods rather than local procurement.⁹⁹

Business and industry would be characterised by:

- A capital intensive bias to investment,
- The neglect of labour intensive approaches to investment,
- The export of capital.

Growth of the middle and upper classes. With the increasing "appropriation" of aid the upper class will thrive as their share of the "resource windfall" exceeded the proportion of the population that they occupied. They will become an increasingly influential group in the government and private sector. Investment would continue to return to areas where profits will be maximised while investment in productive enterprise will languish in the doldrums. The poorest elements of the population would consequently lose in the competition for resources.

The middle and upper classes would be characterised by:

- The increasing inequity with the poorer elements of the society,
- The increasing "appropriation" of available resources.

Foreign aid. In our model we expected the government to make every effort to maximise the flow of foreign aid. Once it reached the dependence stage, this would include following donor-suggested policies concerning the economic and political policies being followed. The government would try to extract the maximum from. Every effort would be made to move aid to more liquid forms regardless of the country's needs. The upper class in turn would use their influence to support this and will try to participate to the greatest extent possible in the process.

Foreign aid would be characterised by:

- A continuing concentration on disbursements,
- An acceptance of poor administrative performance,
- The tolerance of increasing corruption at all levels. 18068

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CHAPTER II

DEVELOPMENT THEORY

The International Relations Context

The political environment. Most literature in the field of development and development assistance deals with the subject purely from the perspective of economics. There is, however, a growing appreciation that the constraints to development go beyond those problems that can be addressed through the application of pure economic policy. Political considerations are often the dominating factor both at the level of international relations and with respect to the adoption of domestic policies. We have in recent years, for example, seen ethnic considerations exert profound influence over the economic progress of such countries as Sri Lanka and Fiji. Bangladesh, was born of such an ethnic factor as was Pakistan during the 1947 partition of British India.

Bangladesh, during the early days which followed independence, provides an interesting example of a newly independent country dealing with a diverse group of nations. Their interests differed widely from one another in providing aid. First, there were those whose strategic interests predominated such as the United States,¹ the USSR,² China,³ India⁴ and the United Kingdom.⁵ Next there were those whose primary interests were humanitarian, Canada,⁶ the Scandinavian countries,⁷ the Netherlands and the Federal Republic of Germany. Finally, there were those with strong commercial interests: the United Kingdom, Japan, France. The state of the economy, severely damaged by the war, limited Bangladesh's capacity to participate in the world trading system. The principal means by which to influence the new nation was through economic aid. We shall see that in Bangladesh this one external influence has had more impact in determining the nature of the development of the country than almost any other.

Bangladesh had won independence from Pakistan following the failure of the West Pakistan to accede to the will of the majority in the 1970 election. This would have allowed the Awami League, of which Sheikh Mujib was the leader and which had gained a majority of the seats, to assume power. After discussions between President Yahya Khan and Sheikh Mujib broke down,⁸ there was a crackdown by the Pakistan Army⁹ followed by a declaration of independence by Mujib¹⁰ culminating in the War of Liberation. India had intervened to make independence possible after efforts to find a peaceful solution had failed.¹¹ After the War Sheikh Mujib returned from his period of incarceration in West Pakistan with great confidence and fierce determination to create a socialist Bangladeshi¹² society.¹³ It was rather directed against the western countries, particularly the United States¹⁴ and institutions closely associated with it, such as the World Bank.¹⁵

During the War the United States had entered into discussions with Khandakar Moshtaque Ahmed* of the Provisional Government in Exile in Calcutta. The United States wanted to bring an end to the hostilities lest they jeopardise the démarche with China being planned by Henry Kissinger, in which Pakistan was to play a vital role in achieving a rapprochement between the United States and China.¹⁶ This secret approach to Moshtaque, when it came to the attention of then acting Prime Minister, Tajuddin Ahmed, led to Moshtaque's being denied the opportunity to represent Bangladesh at the United Nations in its plea for recognition. It also led to his dismissal as Foreign Minister after the Provisional Government had assumed power, although he remained in the cabinet.¹⁷

The United States had, despite these cool relations, made aid available for the refugees in India during the war.¹⁸ Biswas describes the period as follows:

. . . conditions within Bangladesh were very hostile towards the US and consequently American influence was almost completely removed from the country.¹⁹ . . . To further fuel the hostility²⁰ the United States did not recognise Bangladesh until April 4, 1972.²¹

The hostile Bangladesh view of the World Bank derived mainly from its association with American interests, and from the role it was perceived to have played in Pakistan. There, with the Harvard Advisory Group, it had been closely associated with

*Khandakar Moshtaque Ahmed, later to be briefly President of the country, was regarded as being the most pro-American member of the senior echelon of the Awami League. Also variously spelled Mushtaq, Moshtaq.

the policies of President Ayub Khan. These were seen by the new leaders to be based on an inegalitarian philosophy of growth.²²

Their hostility manifested itself in the attitude toward the World Bank and the refusal of the Government to form a donor consortium in the usual World Bank pattern.²³ Although most development assistance is given by the Western donors and institutions supported by them the Government of Bangladesh was prepared to virtually snub Robert McNamara, the President of the World Bank, when he visited Bangladesh for the first time in February of 1972. Sobhan, then a member of the Planning Commission, recalls:

The mood in post-liberation Bangladesh was, however, far from receptive to the imperial benevolence of the Bank. The political mood at that stage was highly nationalistic and focussed against the United States. The Bank's President was regarded as a card-carrying member of the Washington power elite.²⁴

This mood derived both from the political views of the leaders of the Awami League, particularly Sheikh Mujib and Tajuddin Ahmed.²⁵ The view was also held by the members of the newly created Planning Commission. Tajuddin Ahmed, the first Minister of Finance and Planning,²⁶ went so far as to suggest that they ignore his visit, but he was overruled by the Prime Minister.²⁷ McNamara was met at the airport by the Governor of the Bank of Bangladesh but snubbed by Members of the Planning Commission.²⁸ His suggestion of a lunch with old acquaintances, whom he had known in Washington, was vetoed by the Prime Minister.²⁹ It was not an auspicious start.

From the perspective of domestic political ideology, Bangladesh was a country trying to make a break with the free enterprise, open market system³⁰ that had characterised Pakistan. This attempt to change the political system had a considerable effect on relations with the various foreign donors.

Rosenau describes officials of such societies as being unwilling to bargain with their foreign policy environment and to have a stake in keeping such foreign policy issues, in this case the dislike of the United States, openly debated and before their public.³¹ The behaviour of the political and bureaucratic officials in Sheikh Mujib's early government conforms to this pattern. Rosenau gives as examples of other such societies: South Africa, Israel, Rhodesia following the unilateral declaration of independence (UDI).³² Another such might be the Indonesian government of Sukarno during Konfontasi with Malaysia. The Sihanouk Government of Cambodia would also qualify for the period from its renunciation of American aid in 1963 until 1969. These are

regimes that were unwilling to modify their views or policies even in the light of strong pressure from the outside community. The rhetoric of such countries tends to be ideological in character.³³

Almost immediately the views and behaviour of the leaders began to change to what Rosenau terms "acquiescent adaption".³⁴ The transition began with the departure of several of the more militant members of the Awami League's radical wing³⁵ as early as 1972. It was almost complete by the time in mid 1974. The Government, in a concerted attempt to obtain more aid,³⁶ announced a new investment policy on July 16, 1974³⁷ raising the ceiling on investment and declaring a moratorium on nationalisation. This concession to World Bank and IMF pressure was strong evidence of the change in outlook of a government that had been so hostile to both the World Bank and free enterprise only a short time previous.³⁸

The point that marked the completion of this transition, from "intransigent adaption" to "acquiescent adaption", a transition which Rosenau maintains is quite improbable under ordinary circumstances,³⁹ was the dismissal of Tajuddin Ahmed prior to the visit of Henry Kissinger in November 1974.⁴⁰ At this point Sheikh Mujib was prepared to accede to what he perceived to be the wishes of the largest bilateral donor, the United States. Until shortly before this time he had stood firmly in opposition to the United States, by whom he had been snubbed on his visit to Washington in the early fall of 1974. Another indicator was the agreement of the Government to the formation of a traditional donor consortium, of the type preferred by the World Bank. This had been firmly resisted the previous year in favour of a donor meeting hosted by the Government.

By 1974 the economy was facing severe problems. Terms of trade had deteriorated and the volume of aid to Bangladesh had dropped by some estimated \$90.2 million.⁴¹ The donors were reluctant to pledge more financial assistance.⁴² Dependence on foreign aid had risen from a projected 66 per cent of the budget to some 75 per cent.⁴³ Ironically the floods and ensuing famine were the saviors of the economic situation and brought a new flow of aid that pleas to the donors only a few months before had not.⁴⁴

During the latter days of the regime, Sheikh Mujib, to strengthen his position during a time of increasing uncertainty, had also begun to rehabilitate some of the figures prominent in the police and the security forces. Many of them had been trained by the

United States during the time of Pakistan,* and had been implicated in the last bloody days of the Pakistan rule of the East.”

The assassination of Sheikh Mujib by Major Rahman and Major Farook in 1975, ended what was left of the experiment in "democratic socialism" that had been the dream of Bangladesh's planners in 1972. Out of the coup emerged Moshtaque, the pro-American Awami Leaguer. It was during Moshtaque's short regime that the "rehabilitated" officials consolidated their power, in such financially powerful government organisations as the Dhaka Improvement Trust, the Consumer Supply Corporation, the Ministry of Relief and Rehabilitation, the Ministry of Fisheries, Livestock and Forestry, the Jute Mills Corporation and the Sugar Corporation.⁴⁵ All of these were the government departments and state corporations handling the bulk of the new resources flowing into the country. Almost all these rehabilitated officials still held positions either in these organisations or in National Security Intelligence (NSI) or the para-military police at the end of the decade.⁴⁶ The murder of some of the strongest opponents of closer relations with the West, Tajuddin Ahmed, Syed Nazrul Islam, Manzoor Ali and Kamiruzzaman,⁴⁷ all former cabinet ministers, was one of the last acts of Moshtaque's regime and reinforced the new direction. The elimination of Tajuddin is significant too, in that he was one of the strongest critics of corruption and of the incompetence with which the good will of the world had been squandered.⁴⁸ This period also coincides with the beginning of the first modest American military assistance after the assassination of Mujib.⁴⁹

The Moshtaque regime was in power for too short a time for us to ascribe to it particularly unique characteristics of its own. We can safely assert, however, that it did not deviate markedly from the path which the country had begun to take under Sheikh Mujib. It formed the basis from which General Zia was able to continue the trend.

*According to Lifschultz, *The Unfinished Revolution* (p. 189) the Americans trained 113 Pakistanis at the International Police Academy (IPA) and IMPOLSE of which 40 were from East Pakistan. (He points out this figure is quite high when compared to the number trained from Viet Nam from where 414 were trained and where American interests were far more prominent.)

**There are various groups and subgroups in the Bangladesh power structure. In the Military the few officers, such as Zia, who fought for an independent Bangladesh, the Freedom Fighters, untrained villagers who were often undisciplined, but who were the heart of the movement, and who became a very strong influence after independence only to be forgotten as time went on. Finally there were the repatriates, interned in Pakistan but who did not commit themselves one way or another until the war was over. This latter group have grown in influence to occupy many important positions in latter-day Bangladesh.

In the Police Service, according to Lifschultz, *The Unfinished Revolution* (p. 189), only one senior office in the police/intelligence cadre supported the struggle for liberation. In the Bangladesh civil service those who rose from the Civil Service of Pakistan are regarded as the elite while those who entered through other avenues, such as the Police Service, rank lower.

The Zia regime actively sought closer ties with the West and encouraged foreign investment through such policies as the guaranteed repatriation of capital and taxable dividends and generous tax holidays.⁵⁰ It also tried to diversify the sources of foreign aid and reestablish the ties with the Soviet bloc countries.⁵¹ The investment incentives met with only limited success, some US\$61 million flowed into the country between 1972 and 1979.⁵² Unquestionably, however, his efforts were responsible for increasing flows of aid from the Western donors during the same period which totalled some.

President Zia publicly condemned corruption,⁵³ but tolerated it on a grand scale. He released some of the most notorious people who had been imprisoned for corruption, Ghazi Ghulam Mustafa, who had been head of the Bangladesh Red Cross during the 1974 famine, and Abdul Mannan another politician convicted of corrupt practices.⁵⁴

The Zia regime was characterised internally by harshness in dealing with rebels in the army and Zia himself was described as "a man who could kill with one hand and eat with the other".⁵⁵ Although Zia enjoyed personal popularity with the people he was not, despite a reputation as "a soldier's soldier",⁵⁶ popular with the military. He survived some 20 mutinies, attempted coups and assassination attempts during the five and a half years he was in power.⁵⁷ He did make an effort to mobilise the people to self-help schemes in canal-building, but dependence on foreign aid continued to increase as a percentage of GDP (see Table 1.2.) The Government continued to move closer toward the free-market, free enterprise economy advocated by the two largest donors, the World Bank and the United States. Zia also visited Britain seeking increased aid as part of his efforts to diversify and increase the flow of aid.⁵⁸

The Sattar interregnum, like that of Moshtaque, is difficult to classify since it was so short and there was little in terms of concrete accomplishments on which to judge it. The first part of the period following the assassination of President Zia was taken up with the organising of elections. There was also debate within the Bangladesh National Party about whether Sattar should seek the Presidency or not. The latter part of his term was concerned with the severe balance of payments problem the country was facing. It is fair, however, to classify it as a continuation of the "acquiescent adaptive" regime that it followed. For example, the response to the severe balance of payments problem it

encountered in late 1981 and early 1982 was to turn to the foreign donors for increased assistance.

The Ershad regime can certainly be characterised as "acquiescently adaptive" in its foreign relations. It has pursued close relations with the United States and other Western donors who provide the bulk of the foreign aid that Bangladesh receives. Ershad's all-consuming efforts to "legitimise" his government while continuing to retain power indicate how sensitive he was to donor perceptions in the early days of the regime.

Development Theory

Background. Modern development assistance has its origins in the immediate post-World War II period. Humanitarian aid through multilateral agencies predominated, particularly to the United Nations Relief and Rehabilitation Administration in which the United States met some 70 per cent of the costs.⁵⁹ This was followed shortly by the Marshall Plan. It was implemented with the objective of reconstructing Europe following the destruction caused by the Second World War, but was motivated mainly by strategic considerations.⁶⁰ An alternative proposal, the Morgenthau Plan, had proposed reducing both Japan and Germany to subsistence economies, i.e., stimulating underdevelopment rather than promoting development. It was rejected.⁶¹ The results of the Marshall Plan are well known. It introduced some \$12,000 million, into European economies.⁶² Consequently the recovery of Western Europe was, in the view of most observers, hastened considerably.

There are still, however, some dissenting views on the impact of foreign aid even during that period, most notably those of Lord Bauer.⁶³ In any event, regardless of the extent that aid did play in the European post-war recovery, the success of the European recovery had a profound influence on the theory of development and the role of foreign aid during the next decade. Whether or not there was a causal relationship between aid and European recovery, one was certainly assumed by development theorists who followed. Dissenters were in the minority. It is now also clear that the conditions preceding the recovery in Europe were vastly different from those prevailing in the colonies as they gained independence during the immediate post-war era. Western Europe had been industrialised before World War II and the population was educated and

trained to meet the needs of a modern industrial state. They responded and Europe underwent an astonishing recovery.

On the basis of the European experience there emerged a perception, mainly on the part of the Western countries, led and encouraged by the United States, of a need to help the emerging nations to acquire the benefits of the democratic world. It was initially based largely on humanitarian assistance and generous contributions to the multilateral agencies.⁶⁴ Guess maintains that the early post-War aid efforts of the United States were probably the only time in American history where consideration of social justice dominated United States foreign policy.⁶⁵ The attainment of independence of former colonies, such as India and Pakistan, during the early post-War period, and indications that many other colonies would soon be independent, combined with increasing Soviet influence, changed American thinking to a more development oriented approach.⁶⁶

Early planners in the field of development assistance modelled their assistance to the developing countries after that provided to Europe with the expectation that the same kind of development would occur. Foreign aid, the transfer of capital, resources and skills, were perceived to be the manner best suited to accomplish this entry of the newly independent countries into the international economy.

By the mid to late 1960s, the first United Nations Development Decade, it had become increasingly evident that the developing countries were failing to follow the path of post-World War II Europe. Rural-urban drift of population combined with growing unemployment and underemployment signalled that investment in large infrastructure projects was not in itself the answer to improving the standard of living of the poor. Development assistance theory broadened to consider how different strategies could assist the process. Lacking any clear alternative, investment in infrastructure remained one of the fundamental tools of the development practitioner, the rationale being that the benefits from growth would finance equity.

The expansion of agriculture grew in importance as it became evident that industrialisation alone would not yield a solution. Increasing use of high yielding varieties of crops required irrigation and fertiliser. This in turn demanded increasing supplies of energy, making attractive investments for donors seeking both investment in infrastructure and a rationale that their aid was indirectly helping the poorest. Some

development agencies moved more quickly than others to shift the emphasis of their aid. Most still retain vestiges of the capital investment approach to promote development.

Linear stage models. Since development assistance as we know it began, several economic growth theories have been in and out of vogue. Rostow's theory of the five stages of growth and the Harrod-Domar Model, in its various forms, relate development almost solely to economic growth. The former's recognition of the importance of agricultural development is a precursor to later theories. Both approaches virtually ignore the sociological and the domestic political aspects of the development process as they affect either growth or the distribution of resources. The answer to the question of how the poorest elements of society were to benefit from development was left to what became known as the "trickle down" process. This was devised more as an ex post facto attempt at justification for the capital intensive approach, than as a real development theory. It postulated that increased benefits would reach the poorer elements of the society through their exposure to increased employment opportunities. The "trickle down" theory was seriously questioned at the end of the 1960s and the beginning of the 1970s, most notably by Grant. It is dismissed today by scholars, although it is surprising how many adherents remain among the practitioners of aid in the development agencies.

The issue of poverty and the impact that development was likely to have on the distribution of income was, by the late 1960s and early 1970s, regarded as an important omission from the field of development theory. In the meantime, theorists analysing the structure of growth and its impact on society began to pay attention to the effect economic development had on the poor. Simon Kuznets hypothesised that as development took place there would initially be increasing inequity in the distribution of income, the so called "Cross-Country U-Hypothesis".⁶⁷ Later empirical evidence based on cross-country data analysed by Adelman and Morris, Chenery and Syrquin and others appears to confirm Kuznet's hypothesis. They showed that inequality in the distribution of income tended to worsen as per capita income rises until it reached about US\$600 in 1975 prices. These conclusions are by no means wholly accepted, given the limitations of cross country analysis.⁶⁸

The explanation for this phenomenon is that the poorest elements of society are usually employed in the traditional sectors of the economy. These elements have not

benefitted from growth because access of the poor to resources, such as education, credit and land, continues to remain limited as growth takes place in the modern sector.⁶⁹ Their share of the resources declines relative to that of those in the modern sector. There are countries, however, that have implemented policies to counteract or at least minimise this effect such as Korea and Taiwan.

Leading Sector. Some aid theoreticians suggest that developing countries, with only limited resources, should concentrate on one sector, often the agricultural sector. They contend that this concentrates on an area where there is existing expertise and optimises the limited resources available for investment. As the sector develops, it pulls with it sectors that are linked to it. For example, industry would benefit from increased demand for fertiliser. Small scale manufacturing of implements would grow as demand increased for improved tools. The backward integration of the leading sector would encourage other sectors to grow. This is probably the most realistic strategy since it takes into consideration the limited resources available for promoting growth. Its major shortcoming is that it potentially neglects initiatives in new areas that can take place within the economy and which may lead to increased growth or the development of new markets.

"Big Push" or Balanced Growth. Another theory, the "big push" theory of development, takes the view that growth must take place in all sectors simultaneously. This is so that they can provide mutual support for each other. The theory holds that all sectors must advance together since they can then be mutually reinforcing. This provides the inputs for other sectors as they are required. As a theory, its main shortcoming is that it presupposes that there are sufficient resources to provide the necessary investment to allow all sectors to grow at similar rates. Furthermore, historical evidence tells us that economic growth is a far more complex process than simply encouraging sectors to grow at the same rate. Development has shown us that growth does not take place at a constant rate in all sectors simultaneously, nor is it particularly desirable for it to do so. The importance of different sectors changes relative to one another and changes over time. This is usually a trend away from agricultural sector driven-growth toward the manufacturing sectors in more developed economies, and from there to the development of the service sector.

Basic Human Needs. The basic needs approach to development like the theory of equitable growth owes its origins to the growing disillusionment with the growth oriented philosophies that development theorists and practitioners advocated following the success of the Marshall Plan in Europe. Its core is as follows:

All people have certain needs without which life would be impossible. these "life-sustaining" needs include, indisputably, food, shelter, health, and protection. When any of these is absent, or in critically short supply, we may state without reservation that a condition of "absolute under-development" exists. A basic function of all economic activity, therefore is to provide as many people as possible with the means of overcoming the helplessness and misery arising from a lack of food, shelter, health and protection. To this extent, we may claim that economic development is a necessary condition for the improvement in the "quality of life" which is "development." Without sustained and continuous economic progress at the individual, as well as the societal level, the realization of human potential would not be possible.⁷⁰

The basic human needs approach is less a theory of development than an ethic which attempts to guide development investment.

Equitable Growth. Equitable growth is a term coined in an effort to counter the accusations that were beginning to be made at the end of the 1960s and the beginning of the 1970s. These maintained that aid had concentrated on capital intensive strategies and on economic growth to the detriment of the elements within the societies that the aid was supposedly designed to help.⁷¹ It was an effort to maintain growth as an objective in providing foreign aid while trying to satisfy the critics who advocated a basic change in the focus of development assistance to the "basic needs" approach.

High yielding varieties and population control were the foundations of the theory of "equitable growth" in the 1970s. It was an alternative to the emphasis on growth and the "trickle down" effect which by this time were clearly shown not to be having the desired impact on poverty. The failure of growth theory was associated with very slow, or negligible rates of growth of food consumption, employment rates which lagged behind population growth. The development of basic services was only being extended in urban areas and overall economic performance was disappointing.⁷² It was an attempt to find a middle ground between the advocates of growth and those who stressed concentration on "basic needs". Waterson and Ward⁷³ warn against reliance solely on agriculture and stress that strategies must be devised to ensure that the surplus not does benefit the rural elite alone. Mahbub ul Haq and James Grant counter that broad based strategies alone will be very slow to bring about change and favour land reform,

improved access to credit, health, education and family planning services but do not explain how these are to be delivered.⁷⁴

Dependency Theory. Dependency theory owes its origins the structuralist approach developed in the Economic Commission of Latin America (ECLA) under the direction of Raúl Prebisch. They maintained that neither inflation nor balance of payments problems were the result of "irresponsibility" on the part of finance ministers and their governments, but rather that these problems were the result of supply inelasticities in the face of widespread pressure to achieve higher rates of economic development and the ability of the stronger elements of society to preserve their real incomes. In the face of such problems it was believed that the imposition of limits on the quantity of money in circulation was unlikely to curb inflation or the demand for imports. This resulted in a reliance on the export of raw materials, which was subject to both the long term deterioration and fluctuations in the terms of trade. The answer to this problem was the imposition of trade barriers and the promotion of import substitution policies.

Problems arose, however, when it was perceived that while this resulted in decreasing imports of consumer durables, it also resulted in the increase of imports of capital equipment, intermediate products and fuel. This realization led dependency theorists to conclude ". . . that the world consisted of a 'core' of dominant nations and a 'periphery' of dependent ones",⁷⁵ now a fundamental tenet of dependency theory. The result was that the capitalist countries of the core dictated the economic structure of the economies of the "periphery" countries.

There is considerable evidence that this theory does not hold. The theory tends to de-emphasise external factors and assumes that countries are large and have, what Seers terms, "room to manoeuvre".⁷⁶ This is an attribute necessary if, to break the dependency relationship, a country tries to "delink" from the international economy. Other factors that are not given sufficient weight are the cultural relationships with trading partners, physical location of the country and natural resources as a bargaining tool.⁷⁷

Export Led Growth. With the demise of the "basic needs" approach there was a renewed interest in the role of markets. The argument has been put forward favouring the promotion of labour intensive industry as a source of employment which in

turn provides a growing market for agriculture and incentives for increased production.⁷⁸ Mellor argues, however, that the effect of this strategy is to focus exclusively on export markets to the detriment of the broad based domestic markets thus de-emphasising investment in the social infrastructure is essential to the development of agriculture.⁷⁹ Adelman suggests the export oriented strategy, but cautions that market penetration is difficult for countries which do not already have a foothold in the international marketplace.⁸⁰

The Types of Foreign Aid

Each form of aid* has its own distinct characteristics which impinge upon its effectiveness. Bangladesh has been a recipient of all four types of aid discussed below.

Food aid. Food aid is perhaps the most common form of aid in the mind of the public. It is often associated with the kind of disasters that receive generous publicity, such as the droughts and famines of the Sahel and Ethiopia. Food aid is often provided as assistance in times of emergency, but it is also a regular part of the development programmes of donors. Food is usually provided by food surplus countries such as the United States, Canada and Australia. These countries are also the major contributors to the World Food Programme (WFP). The most well known programmes of these are the United States' Public Law 480 (PL 480) food programme.

Food aid usually consists of food grains although other items such as oil seeds, cooking oil, powdered milk and even frozen fish** have been used as food aid in various countries. One major advantage, in the eyes of both donors and recipients, that food aid has over other forms of aid is that it is rapid disbursing. Specifications are relatively uniform and well understood internationally. Delivery times are determined by the time that it takes to obtain authorisation, call for tenders and arrange for delivery. It has an added advantage from the donor's perspective. This is particularly useful to donors who wish to attach specific conditions to their aid, often called "conditionality" or

*Military aid is not considered in this paper.

**The writer was involved in the provision of frozen fish to Egypt by Canada in early 1982. The rationale was that it was to serve as a demonstration of political support by the Government of Canada for President Mubarak's new regime following the assassination of President Sadat. It was initiated by bureaucrats within Department of External Affairs. It bore no relationship either to past requests for wheat as food aid, or to Egypt's traditional trade with Canada.

sometimes "performance lending". The purpose of such conditions can vary. There are sector specific policy items such as, for example, USAID's condition in Bangladesh that soybean and cottonseed oil be sold through private sector wholesale and retail outlets.⁸¹ There may also be conditions that span the whole economy. If the recipient fails to meet the conditions in the agreement then the programme can be halted without jeopardy to the sunk investment. This is rarely possible with project aid which envisions a complete and operating enterprise, such as a school or a generating station, which must be completed to be useful. The portion of the investment already spent would be lost if the recipient failed to meet conditions of the agreement and the donor halted the project. The justification for the provision of food aid, in other than emergency situations, is as balance of payments support to food deficit countries who would otherwise have to spend scarce foreign exchange to import sufficient food for their population.

Since food aid generally comes from food-surplus countries it is, for the donor, a means by which it can both meet a domestic problem while fulfilling an international obligation. We must recall that it is not fungible as a form of aid and hence has little or no opportunity cost with respect to other forms of foreign aid. Food aid foregone will rarely be replaced by another form of aid in the same amount. It can, however, be given an opportunity cost if the donor allows the recipient to convert it into another form through sale or exchange as this allows the recipient to divert resources to other uses. Sale outside the country is usually prohibited under food agreements to prevent the recipient from interfering with the donors established markets for food. Its sale within the country is useful only for generating local currency which limits its flexibility in the eyes of the recipient but still leaves room for some fiscal manipulation. The balance of payments aspect is somewhat limited since most food aid recipients must still agree to the purchase of its usual marketing requirement (UMR). The UMR is determined by the historical import pattern of the country and requires it to purchase, or undertake to purchase a certain amount of food before it accepts food aid. Food and Agriculture Organisation (FAO) require this under the principles of surplus disposal so that food aid will not disrupt food exporters traditional markets.

Programme Aid. Programme aid is a rather general term usually used to refer to lines of credit for which the recipient has some discretion in the choice of imports. It may consist of industrial commodities. Alternately, it may simply be limited

to allow the purchase of materials and capital equipment appropriate to a particular sector. It tends to be used primarily for commodities since major capital projects are usually financed by project aid. Conditions governing what can be purchased vary from agreement to agreement and from donor to donor. It is similar to food aid in that it is not project-specific and can be used to influence the policies of the recipient. Conditionality can be narrow in scope, as in the examples given above in the section on food aid. Alternately, the conditions attached could be broader in scope. For example, the World Bank's condition that the Bangladesh Government's New Industrial Policy reduce the role of the public sector in industrial activities and encourage private initiative.⁸² Programme aid generally precludes the purchase of consumer items or luxury goods, although in particular cases there have been exceptions to this. This form of aid, while somewhat more complex than food aid, is favoured by some donors, such as the World Bank. It is also favoured by recipients because it provides flexibility that neither food aid nor project aid have, i.e., a choice of activities in various sectors.

The justification for programme aid is that, like food aid, it provides balance of payments support. A major disadvantage of programme aid is that it is virtually impossible to evaluate.⁸³ This is because the activities undertaken with programme aid are diverse and the role of the programme aid in the activities can vary from negligible to the entire project. As White points out:

. . . it is virtually impossible for the aid agency to identify the element of performance which is directly attributable to [programme] aid. It is thus impossible for the aid agency to assess its own performance, i.e., the extent to which it has done what it set out to do. If the recipients performance is good by the donor's criteria, the aid is generally deemed to have succeeded; if the performance is bad, the aid is deemed, not to have failed, but to have been frustrated. The absence of any criterion for measuring the donor's performance, in terms of observed outcomes, deprives the recipient of effective ways of criticising donors, of setting limits to their legitimate field of interest, and of making the case for improved terms or increased quantities based on concrete evidence. this is part of the cost to the recipient of programme aid.⁸⁴

It should be borne in mind that this inability to evaluate the impact of programme aid, except with respect to the efficiency with which it has been provided, can be considered an advantage by some development administrators since it makes programme aid very straightforward in terms of the donor agency's own accountability. Finally, because it can be used to purchase a much broader range of goods, it has a degree of fungibility that food aid lacks.

Project Aid. Project aid is the provision of aid to undertake a specific objective such as the construction of a power line or the financing of a rural development programme. The advantage for the donor is that the project is focussed upon a particular activity, or series of activities, and it is relatively straightforward to evaluate. Projects may contain a component consisting of technical assistance (TA).^{*} The disadvantage of the project approach for the donor is that, in case of serious dispute between the donor and recipient, halting the project usually means that the entire investment is lost. An unfinished power station or fertiliser factory serves no useful purpose and, therefore, generates no benefits for the recipient.

The usual justification for project assistance is that it provides the recipient with a viable enterprise that contributes to the country's implementation of its development policies.⁸⁵ Such a project should also contribute to economic growth through increased productivity, and provides some balance of payments support for the capital components of the project that are financed. Project aid is much favoured by donors who are not interested in attaching policy "conditionality" to their aid, but who wish to retain a greater element of control over implementation than is possible with food aid or programme aid.

Technical Assistance. Technical assistance usually consists of the provision of advisors or the training of individuals or groups. Its advantage for the donor is that it allows the use of the donor country's personnel and gives the donor an added element of control. The disadvantage is that the cost of providing foreign nationals has become very expensive. Furthermore, the results obtained are variable depending upon the nature of the project and the advisor's ability to use his knowledge in a foreign cultural environment.⁸⁶ Its justification is to provide technical knowledge and skills to the recipient.

^{*}Technical assistance is generally considered to consist of the provision of expert advice, usually provided by nationals of the donor country, and training, which may be in the donor country or on the job in the recipient country.

Recipient Aid Motivation

From the recipient country's perspective we can assume that the government in power values two things above all else: the preservation of the country's sovereignty and the security of its frontiers, and the retention of power, except within an agreed upon framework for changing governments. The acceptance of aid therefore is based on several objectives.

TABLE 2.1
Recipient Motivation for Accepting Aid

Political	Economic	Humanitarian
Internal Stability	Economic Growth	Equity
Preservation of Power	Balance of Payments	Emergency Relief
External Stability		
International Stature		
International Linkages		

The various objectives of the recipient may overlap. We propose to analyse both the objectives of the recipient and the donor with respect to the kinds of aid being provided and to determine what effect a particular form of aid, or a combination of forms of aid, have had on the economy of Bangladesh.

Political: internal stability. From a political perspective there are several reasons for entering into aid relationships. The preservation of internal stability is of paramount importance to any government attempting to rule a country. A country faced with food shortages, excessive unemployment or underemployment must make some effort to maintain the state of society to prevent civil disorder or revolution. For example in Egypt government authorities in Cairo and other centres monitor the amount of bread in the shops each morning because experience has shown that if there are shortages there is likely to be civil disorder. If shortages are observed, then food is immediately delivered from existing government stocks.* For a country with balance of payments problems, such as Egypt, food aid provides assistance in maintaining stability without having to sacrifice some other aspect of development.

*The description of these measures of for ensuring that food stocks were available was described to the writer on visits to Egypt during the period that he was responsible for the Canadian aid programme there.

Political: preservation of power. If we assume that one of a government's first objectives is to stay in power,* then the preservation of power can be a powerful motive for accepting aid. A country that can be seen to be making measurable progress in providing its people with the resources for a better standard of living may opt for foreign aid as the quickest way to show tangible results. An example of this strategy might be the provision of showcase projects which fulfill a "national dream". The building of the Canadian Pacific Railway in the 1870s in Canada, is one. There was little chance of maintaining Canadian unity following confederation unless the two ends of the country were linked. Foreign aid was not the vehicle used, but massive investment from overseas was.

One of the problems in developing countries is that the people in power may not represent the will of the majority, nor will their interests necessarily coincide with those of the majority. The use of aid for the preservation of power may, therefore, be in direct conflict with the needs of the majority of the population.

Political: external stability. Foreign aid can be useful in protecting a country from external interference in several ways. For a very poor country, where the internal stability is in question, the preservation of order may prevent interference from neighbours. Alternately the provision of foreign aid may allow the country to divert resources from development needs to defence needs with a minimum of internal opposition. For example, Israel is able to devote some 39.8 per cent of government expenditure to defence.⁸⁷ This is only possible because it receives some 5.6 per cent of its GDP, or one sixth of its total revenue, in official development assistance.⁸⁸

Political: developing linkages. Aid can be used by recipient governments to establish international linkages with donor countries. These can take the form of trading relationships that grow out of a familiarity with the donors' products. The formation of linkages between senior officials leading to greater recognition of the recipient government's place in the international community can grow from aid relationships.

*For mature nations this assumption does not usually hold since a developed political system allows a representative opposition to become the government in power and to hold power at the will of the people. Many developing countries, some with ancient cultures but new political systems, have no such established tradition. A party in power is, therefore, much more reluctant to yield power gracefully, even for a constitutionally dictated period, if its leaders fear that major, and possibly irreversible, changes may take place in its absence. In the same way an opposition party is just as eager to gain power when it knows that changes, which may conflict with its fundamental philosophy, are likely to be made. Both may then be prepared to use methods that go beyond those that are legally permitted under the constitution, to maintain or change the status quo.

Specifically, these can lead to support for candidacies for positions in international agencies. The recipient may also wish to develop linkages to prevent the dominance of any one particular donor. Thus, aid from the Soviet bloc might be used to counter-balance a strong American presence.

Economic: growth. Economic growth is usually one of the foremost objectives of the government of any developing country. Growth is still often equated with development in recipient countries and the pursuit of growth remains paramount among the objectives of economic planning. Aid, therefore, is seen in the traditional terms of the Harrod-Domar Model as contributing to accelerated growth through the increase of capital formation. This is usually low in developing countries because of low rates of savings. Foreign investment as an alternative to foreign aid may not be an option, either because of the credit-worthiness of the country, or because it has opted for a growth strategy that minimises the role of the private sector. The use of foreign aid as a surrogate for the free movement of investment capital is common in developing countries, particularly those with a strong ideological bias against the free market system.⁸⁹

Economic: balance of payments. Balance of payments is a continuing problem for countries which are characterised by mono-crop economies, usually basic commodities, vulnerable to the vagaries of the international marketplace. The provision of foreign aid, particularly in the form of programme aid, allows some flexibility in the choice of imports. For food deficit countries, food aid which can replace necessary imports, by allowing other priorities to be met with the freed foreign exchange, making it easier to deal with balance of payments problems. The acceptance of aid from bilateral donors during difficult periods may also defer the need to be forced to appeal to the International Monetary Fund (IMF). This is because the IMF may, as a part of an adjustment programme designed to address balance of payments problems, impose conditions more unpalatable to the government than any imposed by donors. The ability to increase imports, particularly imports of capital equipment designed to boost production of exports or of import substitutes, may also be a rationale for accepting foreign aid. The possibility of increasing the import of consumer items or military goods should not be overlooked.

Humanitarian: relief. Emergency relief is a frequent reason for a government to request aid after a disaster. Emergency aid is usually available on short notice and tends to be disbursed quickly. It assists the government concerned in maintaining services and programmes with minimal disruption while responding to the needs of the affected minority. It is demonstrative of the government's concern for its people. Nor is emergency relief limited to the developing countries. Developed countries may also seek aid for a disaster, though in this latter case the aid tends to be more the nature of specialised services rather than relief goods. For example, medical teams sent to Mexico following the recent earthquake, or underground rescue teams to help cope with a mine disaster, might be required in a developed country rather than relief supplies.

It is worth noting that there may be a reluctance on the part of a potential recipient government to request aid if the disaster is of its own making, or if it could have been prevented, thereby reflecting on its capacity to further the interests of its people. The famine in Ethiopia in the early 1970s is an example of this, as was the sharp decline of nutritional status of the inhabitants of northeast Ghana in 1974 and 1975 at the time of the Sahelian drought of the early 1970s.*

Humanitarian: equity. Seeking aid in order to encourage greater equity is probably rarer than any of the foregoing rationales. There has probably been more concern for the social equity issue on the part of donors and academics; both from the developed and the developing world, than there has been from the governments of the developing countries. Countries are not particularly eager to admit publicly that their regimes may be inequitable. Nevertheless there are two situations where it could conceivably be a rationale for seeking aid. The first might be from a regime, such as that of President Nyerere which had as a fundamental tenet of its philosophy the increasing equity of the people of Tanzania.⁹⁰ The second would be where a recipient was following what White would term a "presentational"⁹¹ strategy. This is where the recipient knows that the donor considers equity a prime justification for giving foreign aid. The potential recipient, therefore, makes it part of the request for foreign aid.

*The writer was resident in Ghana from July 1971 until November 1975 working on projects in the northern part of the country. Reports from researchers monitoring the nutritional levels of the north together with the observations of volunteers in the same areas were brought to the attention of Colonel Acheampong's National Redemption Council who refused to acknowledge it publicly by requesting foreign aid. Such an acknowledgement would have pointed at the failure of the regime to come to grips with some of the more basic problems facing the country.

Recipient Strategies

Bauer argues that the level of foreign aid, in comparison with domestic resources, is so small that the effect is bound to be virtually negligible.⁹² Nevertheless, it is sought after by many governments. Some may even pursue it to the point where they are prepared to sacrifice basic tenets of their political philosophies and development strategies to qualify for aid from donors who have imposed conditions on their aid. This is evident in the increasing sophistication with which foreign aid is requested.

The recipient's objectives in seeking aid may differ markedly from those of the donor in giving it. For example, recipient strategies may be closely related to satisfying political needs in a particular area of the country. Alternately they may involve responding to the desires of a segment of the population rather than achieving economic growth or improving the standard of living of the poor. The recipient's request may be to pursue a development strategy that is markedly different from that favoured by the donor. The recipient still, however, has to satisfy the donor that the latter's objectives will be met. This is further complicated when a country draws resources from a wide range of bilateral and multilateral donors, many of whom have conflicting perceptions of what development goals the recipient should be pursuing. In the face of these conflicting objectives the recipient has to formulate a strategy which meets both the donors objectives and its own. As White points out, some of these are non-economic objectives and they may not meet with approval on the part of the donor.⁹³

One strategy of the recipient may be to accept the aid offered, but to "appropriate" it to serve another purpose. The result is that aid is then put to a use for which it was not intended by the donor. The recipient uses a project to satisfy its own needs and the donor's expectations. White's example is of a request for a steel mill that a recipient will then locate in a particular area that has nothing to do with the economics of steel production, but meets the recipient's domestic political obligations. Thus, it satisfies both the domestic political need for aid and, in this example, the donor's desire to supply a steel mill.⁹⁴ Neither objective is well served by this approach.

Another strategy open to a recipient country is termed "switching". The recipient requests aid for projects that will appeal to the donor using its own resources to

finance those which it believes donors will consider unattractive.⁹⁵ Military expenditures are frequently made with monies freed by donors having provided foreign exchange to finance other imports.

A third option is to pursue a "presentational" strategy. This involves proposing policies that the recipient knows will meet the donors requirements, but which it has no intention of carrying out.⁹⁶ This works particularly well with project aid, which as we have seen is difficult for the donor to use as leverage because of the potential loss of the whole project, which would cause political embarrassment.

In summing up, White makes an important point in maintaining that in the assessment of aid it is not sufficient simply to see what the aid has done in terms of the stated objectives; aid must also be assessed against the effect it had that was *not* foreseen. We must always ask, "What else did it do?"⁹⁷

Development Theory: Bangladesh's Strategy

In the following section we will examine the strategies proposed in the various development plan documents in Bangladesh. This will give an indication of what we might expect to have been achieved at various periods in time. We use three periods: 1971 to 1975, 1976 to 1981 and 1982 to 1986. They coincide roughly with the three major political regimes: those of Sheikh Mujibur Rahman, President Zia and President H.M. Ershad, although the latter is still in power at this writing.

The first period corresponds with the Mujib era, fiscal years 1971/72 to 1974/75.^{*} It might be unfair to expect great changes in the economy and concrete accomplishments at this point, but there should be some evidence that the policies outlined in the First Five Year Plan had been put into place to work towards achieving development objectives. In all fairness to Bangladesh the period also corresponds to a time of external change, the rise in the international price of commodities including the first oil price hike. The country was subjected to serious floods in 1974⁹⁸ which were followed by a famine of considerable proportions. The period covers the reconstruction of war damage, and, while there was still work going on to put the economy on its feet, the rehabilitation

^{*}The Government of Bangladesh fiscal year runs from July 1 to June 30. All references to statistical data use these periods unless otherwise indicated.

stage had formally come to an end with the withdrawal of the United Rehabilitation Organisation of Bangladesh (UNROB) at the end of 1973. It is reasonable, however, to assume that Sheikh Mujib had been given sufficient time to consolidate his position and to start to bring about the transition of the economy from the Pakistan free market model to the socialist model that was envisaged.

The second period is that following the completion of the First Five Year Plan, fiscal years 1976/77 to 1979/80. Politically this corresponds to the Zia regime comprising as it does both the Martial Law period and the return to nominal legitimacy.^{*} It also coincides with the term of the Two Year Plan⁹⁹ (TYP) and the time during which the planning was taking place for the Second Five Year Plan (SFYP).

The final period for examination from 1981 to 1986 comprises the brief Sattar government and the Ershad regime. Economically it covers the last four years of the Second Five Year Plan and the first year of the Third Five Year Plan (TFYP); fiscal years 1981/82 to 1985/86. The Ershad regime had had adequate opportunity to establish itself, although nominal political legitimacy[™] had not yet been established. In this period it is possible to look at the results of the Second Five Year Plan. Consideration of this period will be briefer than the other two periods because of the relative scarcity of published material owing to its more recent origin.

In each of the periods we look at several areas to determine what policy decisions have been taken and what can be reasonably expected in the time period applicable. Chapter III examines the actual state of the country compared to our expectations according to conventional development theory and compared with the predictions of the aid dependence paradigm in Chapter I.

Evidence Required to Substantiate Theory

The political economy of an aid-dependent regime: The plans. The objectives of the First Five Year Plan were clearly a reflection of the Government's objective to

^{*}In referring to the Zia regime's return of the country to legitimate government, and the later the Ershad regime's return to legitimate government, we mean only that the Government had returned to constitutional rule. The means by which both governments were returned and the validity of the various referenda and elections may well be open to question.

^{**}Parliamentary elections were held in the spring of 1986, but Ershad was not elected President until October 1986 and Martial Law was not lifted until later.

transform Bangladesh into a socialist state. The following outlines the key objectives of the First Five Year Plan:

The basic objectives of the Plan are as follows:

- (i) To reduce poverty. This is the foremost objective of the Plan. . . .
- (ii) To continue and complete the work of reconstruction, and to raise output in the major sectors of the economy, particularly in agriculture and industry, to the bench-mark of 1969-70 as adjusted for expansion of capacity, by 1973-74.
- (iii) To increase the rate of growth of G.D.P. to at least 5.5 per cent per annum, . . .
- (iv) To expand the output of essential consumption items with a view to provide [sic] the minimum consumption requirement of the masses. . . .
- (v) To arrest the rising trend in the general price level, . . .
- (vi) To increase per capita income at the modest rate of 2.5 per cent per annum. . . .
- (vii) To consolidate the gains made so far in the socialist transformation of Bangladesh; . . .
- (viii) To reduce dependence on foreign aid over time through the mobilisation of domestic resources and the promotion of self-reliance. . . .
- (ix) To transform the institutional and technological base of agriculture with a view to attaining self-sufficiency in foodgrains, . . .
- (x) to lay the groundwork for an ambitious programme of population planning and control; . . .
- (xi) To accelerate the rate of development expenditure and remedy the glaring deficiencies in the traditionally neglected fields of social and human resources development by improvement in education, health, rural housing and water supplies, etc., all of which will also help to improve general capability and efficiency of work.
- (xii) To ensure a wide and equitable diffusion of income and employment opportunities throughout Bangladesh. . . .¹⁰⁰

The First Five Year Plan suggests a strategy most appropriate to return the country its immediate pre-war level and to begin the transformation to a socialist society. The first objective of the First Five Year Plan was to reduce poverty and encourage moderate economic growth. This was to be done through increasing the level of savings and investment.¹⁰¹

The second step was to rebuild the damage that had taken place during the yearlong civil war that had split the country from West Pakistan. This involved raising production levels to bench marks estimated to have been the levels which production would have reached, had the economy not been depressed by the War of Liberation. The planners believed that this could be accomplished by establishing new trading relationships, resuming the import of raw materials, improving labour relations and providing adequate incentives to improve production.¹⁰²

The third objective, growth, was designed to achieve the First Five Year Plan's targets above the bench-marks.

The planners' objectives were to create the prerequisites for sustained self-reliant growth in agriculture and small industry. This would broach the problem of unemployment and under-employment. Autarky in food grain production would be achieved and a policy import substitution in the manufacture of consumer goods implemented. These would be combined with mass literacy programmes and improved rural health care to be delivered at low cost to the rural areas.¹⁰³ Foreign assistance, particularly from sympathetic countries with socialist objectives, was welcomed, but the prevailing view was that this was not a substitute for harnessing domestic resources. Furthermore, dependence on such foreign aid for more than a helping hand would be unconscionable.¹⁰⁴

Expectations of the First Five Year Plan. From the strategies proposed in the First Five Year Plan, the following results could reasonably have been expected to have taken place within the short time space between the preparation of the First Five Year Plan and the end of our first period. There would be concentration on the development of institutions that were concerned with improving the access to resources of the poor, marginal farmers and the landless. It is apparent from its recurring theme in the First Five Year Plan that the alleviation of poverty was considered important by the planners.¹⁰⁵

The philosophy of the second objective of the First Five Year Plan is very much in line with the entitlement approach posited by Sen.¹⁰⁶ It implies some effort at ensuring a basic set of entitlements to make the essentials of life available, even to those on the lowest level of the socio-economic scale. Sen's approach builds on the premise that everyone is entitled to access to a basic package of essential goods through his or her own efforts and is an attempt to formulate a practical approach to the problem of meeting basic needs. We should expect an improved capacity to reach the poor with services, although in the time-frame envisioned real improvements might still be few.

The view was that agriculture would be the leading sector, both by virtue of size, and the emphasis placed on its development. It could then be reasonably expected there would be sustained investment in training, and, at the very least, the provision of the standard "green revolution" package of inputs: fertiliser, increased irrigation and high yielding varieties of seed (HYV). The Plan saw concentration on the construction of

such productive investments as irrigation and drainage facilities and flood control projects.¹⁰⁷ Construction and energy would also feature in leading economic growth, particularly the latter, starting as it did from a fairly low base:¹⁰⁸

The Plan does not envisage any sharp structural change. It is not marked by rapid industrialisation. The share of manufacturing industry in GDP remains relatively small even at the end of the Plan period, just over 11 per cent. Thus the Plan avoids the pace and pattern of industrialisation based upon modern, borrowed capital intensive technology, except in areas where the choice is limited and import substitution is urgently needed [the other exception being energy noted above].¹⁰⁹

With the expansion of availability of basic consumption items, the Government's attitude was biased towards the promotion of an import-substitution strategy.¹¹⁰ One would expect that, combined with investment in increased productive capacity in the production of basic necessities, and in line with the fundamentally egalitarian approach that underpinned the Government philosophy, there would be increasing emphasis on the development of the institutions necessary to deliver the benefits to the poor.

The objective of arresting the general rise in price level is fundamentally a problem of conventional economics applied to a country emerging from a war. Controlling the money supply and ensuring that the basic commodities are available would be expected to do much to stabilise prices. On the other hand, exogenous factors such as the external economic environment, which are beyond the managerial control of the Government could still bring about unforeseen price increases.

Increasing the growth rate is a standard approach to economic development to generate more resources. This was to be attained by introduction of new technology into the agricultural sector. Investment in manufacturing was designed to provide more added value to exports. Given the Government's bias toward import substitution, more investment in the domestic manufacture of basic essentials that had hitherto been imported might be expected.

The socialist objectives of the Government were to be pursued through the nationalisation of industries and, to the extent feasible, the distribution system in the country.

The objective of reduced dependence on foreign aid would imply making optimal use of the aid that the country was prepared to accept. Policies would have to

focus on increasing the rate of domestic savings and increasing domestic resource mobilisation to finance the growth anticipated.

The First Five Year Plan's focus was on agriculture, the largest sector. The strategy was to increase production dramatically at an average rate of some 8.4 per cent, or 4.6 per cent¹¹¹ over the established bench-marks.¹¹² There would have had to be a substantial investment in the agricultural inputs required to achieve higher production, and the technology required to achieve higher productivity. Finally, they would have to develop the agricultural and credit institutions necessary to deliver the package to the farmers.

Population pressure was acknowledged to be one of the key constraints that had to be overcome if Bangladesh was to achieve real growth on a per capita basis. A population programme would have to be mounted and it would require an emphasis on institutional development to deliver the message. The low rate of literacy, estimated at some 20 per cent in 1974¹¹³ would have necessitated an imaginative approach that did not rely on the written media. There would have to have been a strong effort to strengthen the institutional capability to deliver both the message and the contraceptive product.

The acceleration of the delivery of a programme of improved social services presumed an increased rate of saving and a dramatic broadening of the tax base. It would also require the strengthening of the governmental systems necessary to administer such a programme. Education would certainly figure largely in such an effort since on it depended the transmission of information for many of the Government's other efforts.

The promotion of social equity would have demanded a concerted effort to continue the trend to improving the distribution of income that was underway during the period that the country was part of Pakistan¹¹⁴ (see Table 4.4). The modest improvement in income distribution at least demonstrated that such an improvement was possible.

The Two Year Plan. The Two Year Plan was an interim plan only. It omitted three of the original objectives of the First Five Year Plan: the reduction of poverty, the acceleration of development expenditure on the previously neglected sectors of education, health, rural housing and water supply, i.e., the social sectors, and, not surprisingly, the socialist transformation of Bangladesh.

Expectations of the Two-Year Plan. There was less emphasis on the objective of alleviating poverty in the Two-Year Plan, a reflection of changed political ideology of

the new Government. Accordingly, we would expect to see a continued worsening in the number of people under the poverty line and more stress on the objective of achieving growth in the modern sector.

The Second Five Year Plan. The Government once again seized the poverty issue as the greatest problem facing the country. The Second Five Year Plan states the following:

The objectives of the Second Five Year Plan (SFYP) have been formulated in the context of overwhelming problems of poverty, unemployment, illiteracy; and malnutrition of the mass, mostly living in rural areas. In the past high growth rate of population on the one hand and slow growth of the economy on the other have rather accentuated these problems over time. About 85 percent of people now lives under condition [sic] of absolute poverty; 74 percent of them cannot read and write and about 33 percent of labour force have no work. The problems have become endemic in character.¹¹⁵

With this situation in mind the Second Plan document went on to enunciate the specific objectives of the Plan:

- (i) To ensure an equitable growth in order to bring about a noticeable improvement in the standard of living of people by ensuring adequate supplies of the basic needs;
- (ii) To reach self-sufficiency in food in the shortest possible time;
- (iii) To expand opportunities for gainful employment so that people have access to income and resources for their basic needs and to benefits [sic] of growth;
- (iv) To eliminate illiteracy and achieve universal primary education as steps for comprehensive human resource development;
- (v) To reduce the rate of population growth;
- (vi) To promote participation of people in development activities through devolution of administration and development of local institutions; and
- (vii) To attain a higher degree of self-reliance through domestic resource mobilisation effort and improvement of balance of payment position.¹¹⁶

Expectations of the Second Five Year Plan. What is evident from reading the Two Year Plan and the Second Plan is that the sense of idealism and urgency has gone. The egalitarian spirit, while still reflected in rhetoric, is less evident and less compelling. The bold objectives have been replaced by targets which lack the strategies designed to carry them out. The socialist tone of the First Five Year Plan is replaced by more conventional growth oriented objectives.

In 1976 Just Faaland and Professor Parkinson made some projections of what it appeared to be possible to achieve in Bangladesh and using conventional development theory and common sense. Their predictions about what it might be possible to achieve with the resources at hand are presented in Table 2.2.

TABLE 2.2
Development Scenario, 1975-2000
(values in approximate 1974 prices in US\$ equivalent)

	1975	1980	1985	1990	1995	2000
1. Population	80	93	106	121	136	150
2. GDP	6,400	8,170	10,930	14,630	19,610	26,140
3. Gross Investment	550	1,225	1,965	2,635	3,530	4,710
4. Net Capital Imports	800	980	1,310	1,465	1,570	1,570
5. Domestic Savings	-250	245	655	1,170	1,960	3,140
6. Consumption	6,650	7,925	10,275	13,460	17,650	23,000
7. Gross Product pc.	80	88	103	121	145	174
8. Consumption pc.	83	85	97	111	130	153
9. Domestic Savings pc.	-3	3	6	10	15	21
10. Gross Investment %GDP	8	15	18	18	18	18
11. Capital Imports %GDP	12	12	12	10	8	6
12. Domestic Savings %GDP	-4	3	6	8	10	12

	1975/80	1980/85	1985/90	1990/95	1995/2000	1980/2000	1975/2000
13. Population	3.0	2.8	2.6	2.3	2.0	2.4	187
14. GDP	5.0	6.0	6.0	6.0	6.0	6.0	401
15. Gross Investment	17.4	10.0	6.0	6.0	6.0	7.0	855
16. Gross Product pc.	2.0	3.1	3.3	3.6	3.8	3.5	218
17. Consumption pc.	0.6	2.5	2.9	3.2	3.3	3.0	184
18. Capital-Output	-2.0	2.7	3.0	3.0	3.0	3.0	n.a.
19. Marginal Svgs Rate	-28.0	15.0	14.0	16.0	14.0	16.0	n.a.
20. Marginal pc. Savings	-62.0	32.0	24.0	20.0	22.0	21.0	n.a.

Source: Just Faaland and J.R. Parkinson, *Bangladesh: The Test Case for Development* (London: C. Hurst & Company, 1976), table V.1, p. 68.

These modest accomplishments were predicated upon the Government's ability to improve the quality of management. They assumed a relatively stable regime, although they acknowledged the difficulties that Bangladesh would face in broaching the War-related problems and the inherent poverty of the country.

In a straightforward projection of what appeared economically possible, such as Faaland and Parkinson's book, Robinson's study, or as is reflected in the proceedings of the meeting of the International Economic Association¹¹⁷ the tendency was to consider the economic theory in relative isolation. These writings reflect a concern with the social objectives combined with conventional economic projections.

We might have expected the implementation of the various plans to have been characterised by:

- A concentration of resources on the poor,
- Labour intensive strategies,
- Institutional development,
- A selective approach to accepting foreign aid.

The Food Distribution System. The Food Distribution System, also called the Ration System, has played a fundamental role in the Government's attempts to develop the economy. One of the problems in Bangladesh has been to control the price of rice with a view to reducing the large price swings that occur. Such price increases are now generally blamed for the famine conditions that prevailed towards the end of 1974 rather than a shortfall in actual food availability. Rice production in fact was at its highest in 1974, for any year between 1971 and 1975.¹¹⁸ The manner in which such price stabilisation might have been achieved is through the use of a strategic reserve¹¹⁹ and a domestic procurement programme.¹²⁰

The other purpose that the Food Distribution System theoretically served was to ensure that those who would suffer most through an increase in the price of rice, the rural poor and the disadvantaged, were able to procure sufficient rice at an affordable price to satisfy their basic nutritional requirements. The System was designed to achieve equity and stability in regard to this essential basic commodity.

Faaland and Parkinson suggest, that in a poor country such as Bangladesh, the sale of food at far below the prevailing market price is not a realistic solution.¹²¹ However, they maintain it would be more realistic if payment were to be made for work done since the lack of paid employment leads to increasing poverty.¹²² "Fair price" shops were established by the Government shortly after independence, but essentially failed because the windfall profits during periods when the price of rice was high proved to be too much of a temptation to speculators.¹²³ Faaland and Parkinson argue that while such a food distribution system has much to commend it in theory, in order to control the price of essential commodities, but there is little point in continuing if it fails in this task and in addition makes exorbitant profits for individuals.¹²⁴

The World Bank, in the aftermath of the 1974 famine, stressed the need to build food stock reserves¹²⁵ and to eliminate illegal ration cards which were in relatively wide circulation.¹²⁶ They agreed with Faaland and Parkinson that the price differential between the ration system and the open market is too great an inducement to siphon food into the free market at great profit and that, in any case, the food did not benefit the rural poor or the destitute.¹²⁷ The subsidy alone for 1975 was estimated to have cost the Government some taka 800 million (\$US 90.1 million at the prevailing exchange rate of taka 8.8759 to the US dollar). We would expect such a system either to be abolished,

retaining only those elements as a strategic reserve, the Food for Work Programme and the Vulnerable Group Feeding Programme, which have been demonstrated to serve the Governments objectives. Alternately, at the very least, there would have been a general tightening of administrative controls.

We would then expect this area to have been characterised by:

- The tightening of administrative controls,
- The possible abolition over time of those parts of the Food Distribution System which serve no identifiable social need,
- The retention of those parts of the System that are designed to address the very poor.

Agriculture. In a predominantly agrarian society, such as Bangladesh, it might be expected that agriculture would play a dominant role; first, in attempting to achieve food autarky; second in trying to improve the state of nutritional intake; third, in providing increased employment opportunities for new entrants to the work force; fourth, in realising an agriculture-driven industrialised sector¹²⁸ and last, in trying to develop an export market for selected non-traditional cash crops.

Agriculture was the largest single sector in the economy accounting for about half of the GDP and the employment of 80 per cent of the country's rural population.¹²⁹ While over time its position might be expected to shift to a slightly smaller share of the GDP,¹³⁰ it is unlikely that we would see a substantial shift in the short period under consideration although the trends should be evident. Agriculture is probably the most critical sector of the economy, both because of its size and its potential. As Rene Dumont has noted:

Technically speaking, the agricultural potentialities of Bangladesh by the square metre of arable land, are much higher than those of India, China or Japan. The quality of soils are [sic] much higher than in India.¹³¹

Average yields are low when compared to other countries. Rice, the main crop, has a yield of about the same as India, 25 per cent that of Australia, 33 per cent that of Japan and 50 per cent that of either China or Taiwan.¹³² The effort and results in the agricultural sector will thus be critical to the success of any programme.

Since the approach that had yielded positive results in other countries was the standard "green revolution" approach of high yielding varieties, fertiliser and irrigation, the problem was not technology, but effective delivery to small farmers. The development of rural institutions would be critical to success in the agricultural sector

since it was also known that small farmers were generally the most productive members of the agricultural community, although they use the least in the way of modern inputs.¹³³ One would expect a concerted effort in this direction as the First Five Year Plan had suggested.

We would therefore expect this sector to be characterised by:

- Increased investment in agriculture,
- Concentration on the improvement of rural institutions,
- A genuine effort to achieve full agricultural potential.

Economic growth. Overall economic growth would depend on both internal factors, such as the rate of investment, and exogenous factors such as the terms of trade and the market environment for products Bangladesh can produce. It would also be contingent on increased purchasing power of the majority of the population who were close to the poverty line.

In assessing the outlook for a realistic growth rate was generally agreed to be between 5 per cent,¹³⁴ the view of E.A.G. Robinson, and 5½ per cent, the view of Hollis Chenery of the World Bank.¹³⁵ Some estimates, such as that of Branko Horvat, put it potentially as high as 8 per cent, achieving a sustained rate of growth rate of 10 per cent by the end of the First Plan period.¹³⁶

Faaland and Parkinson maintained that realistically agriculture must be the main growth area for the immediate future¹³⁷ because of its tremendous importance to the economy, but that and industrial growth rate averaging 10 per cent would be consistent with performance in other LLDCs.¹³⁸

We would therefore expect:

- The stress on economic growth to be concentrated on agriculture,
- There to be some determined effort to recognise and encourage growth in the traditional sector.

Business and industry. The philosophy of the first government which was firmly socialist in objectives, so one would expect the element of state control in the economy to increase. With later governments this commitment to a socialist philosophy was eroded until it eventually formed very little of the Government's ideological outlook. We would, therefore, not expect a very dynamic private sector from the Mujib regime during the first period. Succeeding regimes would ease the restrictions on investment and

encourage the private sector to expand. We would, then, expect that the private sector, particularly in the most recent period, would be a dynamic element in the economy.

A government pursuing a policy of liberalisation could ease the limitations on capital investment and encourage the development of financial markets appropriate to attract the savings traditionally sunk in unproductive investments such as jewellery and land* and to provide incentives to productive enterprise as opposed to trading and importing.

We would expect the following:

- Emphasis on exports,
- The encouragement of export trade,
- The simplification of small investment,
- The encouragement of traditional savings to be channelled away from non-productive investment and into new enterprises.

Equity and the growth of the middle and upper classes. The objective of the improved equity and the alleviation of poverty are central objectives of the First Five Year Plan and figure strongly in the objectives of subsequent plans. While it might be early to expect a measurable improvement in the standard of living of the poor, the policies formulated and followed to make available more resources to the marginally landless and the landless should give some indication of the progress being made. Tax policy would provide both an incentive to productive employment generating segments of the economy and strong disincentives to unproductive investment. In this area the Government might be expected to set an example of modest consumption and self-reliance.

We would expect:

- A record of governments active promotion of social equity,
- The discouragement of the acquisition of great wealth.

Foreign aid. Given that reduced dependence on foreign aid is usually an objective of a government seeking to preserve its sovereignty, we would expect policies concerning the acceptance of foreign aid would involve a strict ordering of aid priorities.

*This is not to say that land is not productive, but rather that, since land is fully utilised in Bangladesh, increased investment is unlikely to make it any more productive, but will bid the price up. In fact there is considerable evidence that the acquisition of land by large landowners decreases its productivity since the evidence shows that small marginal landowners are considerably more productive than large ones. (de Vylder, pp. 116-117)

We would also expect that, on the basis of an overall economic strategy, debt service implications would figure largely in aid acceptance. Aid, particularly aid on a loan basis, would be primarily spent on essential capital items, either to further the import substitution strategy and/or an export driven policy. Consumption items would be minimised because of the future debt implications without corresponding foreign exchange generation, and because of the danger of developing import dependent industries which could contribute to future balance of payments problems. In other words, particularly in the current foreign aid environment which is not positive, there would be a tendency to reduce the imports to those necessary or which contribute to increased foreign exchange earnings.

Reduced dependence on foreign aid does not necessarily mean less foreign aid, but rather pursuing a strategy where foreign aid can be foregone at only the price of reduced growth, resulting from the reduced investment available. Growth in the mobilisation of domestic resources that can replace the domestic component of the investment should indicate progress. The emphasis on the development of industries where there is comparative advantage should be strongly pursued.

We would, therefore, expect to find:

- The selective use of foreign aid,
- The active encouragement of domestic initiatives that do not depend on foreign aid.

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CHAPTER III

COMPARISONS AND RESULTS

The Political Economy of an Aid Dependent Regime

The political economy of aid is best illustrated in the results of the development plans. There, the compromises between the objectives of the economic planners and the reality of the politicians' desire to consolidate their power base and retain power are combined to form the reality of development.

At independence the Planning Commission was created by Sheikh Mujibur Rahman to create the new socialist state that he envisioned. Members were to hold the same rank as ministers. The next level, chiefs of the sections, were to hold the same rank as the secretaries* of other ministries.¹ The Commission was at the forefront of the new Government's initiatives to develop and diversify the economy. Members were drawn from friends of Sheikh Mujib who were also among the elite of the academic community.² It was a promising beginning.

The Prime Minister headed the first Planning Commission. Professor Nurul Islam, formerly of the Pakistan Planning Commission, was Deputy Chairman.³ The other members were Professor Rehman Sobhan, Professor Mosharaff Hossain and Professor A. Rahman. All three men were well known at the time in Bangladesh. They were cool toward the World Bank and the Americans.

*Secretaries in the Bangladesh system would be comparable to under-secretaries in the British system or deputy ministers in the Canadian system.

**The Deputy Chairman was the executive head of the Planning Commission with the political direction being provided initially by the Minister in charge of Planning and later by the Prime Minister. (Islam, 1977. p. 46.)

The First Five Year Plan was socialist in tone,³ and only 12.5 per cent of investment was foreseen for the private sector.⁴ This was a reflection of the new Government's political philosophy, although one can question how realistic this was for a government which counted among its prominent supporters the large land-holders.⁵ The First Five Year Plan called for very ambitious targets. Investment was to start at about 12 per cent GDP and rise to 19 per cent by the end of the plan period. Savings were expected to start at 4.5 per cent and rise to 14.2 per cent by the end of the Plan period.⁶ Foreign capital was to provide about 40 per cent of the development expenditure⁷ and the economy was expected to achieve sustained growth of 5.5 per cent of the GDP.⁸ Even at the planning level therefore, once past the initial rhetoric, it was essentially an attempt to achieve everything at once. It sought to stimulate agricultural growth by 4.6 per cent over the bench-mark and 8.4 per cent over actual 1972/73 production.⁹ It pursued a policy of import substitution, to provide internally for the economy those products that had hitherto been provided by the West Wing of Pakistan.¹⁰ This resulted in heavy investment in the industrial sector. The power and gas sectors were the second fastest growing in the economy.¹¹

Furthermore, as the First Five Year Plan was finalised it received critical comment from only a narrow range of critics. Open discussion was vetoed at the political level, as was debate in Parliament, although the Planning Commission was supportive of such discussion. There was no provision in the constitution for the approval of a five year plan. Even debate in Cabinet was limited to discussion of executive responsibility and the administrative mechanisms that the Plan required.¹²

The drafters of the First Five Year Plan proposed a strategy that was essentially a "lead sector" approach with agriculture as the dominant sector:

The Plan is designed to generate a rate and pattern of income growth which will not only meet a minimum consumption standard but also expand employment opportunities and ensure a socially desirable pattern of income distribution. With this end in view the basic strategy in the Plan is to concentrate on increasing output in those sectors of the economy which use large amounts of labour and use methods of production which are labour intensive.¹³

The justification was obvious. Agriculture accounted for some 58 per cent of the GDP at independence, and provided the largest source of employment in the country. The policy actually adopted by the new government at the political level, however, appears to have been essentially a "big push" or balanced growth strategy although such is not stated explicitly. The allocation of resources to the various sectors (see Table 3.1) supports

such a conclusion. Investment was concentrated in the modern sector. Even the growth projections in the Plan itself saw construction, irrigation, drainage and housing as leading the way followed closely by the power and gas sector.¹⁴ The latter were neither employment generating, except in the short run, nor did they promote agricultural growth, except possibly through fertiliser production.

Although the First Five Year Plan (see Chapter II) was idealistic and founded on the principles of social democracy, it was biased against agriculture and rural development in its allocation of resources if not in its rhetoric¹⁵ (see Table 2.3). Despite the articulated emphasis on agriculture, the relative share of agriculture in the (proposed) Pakistan Fourth Plan had been much higher.¹⁶ Thus, the actual implementation all but ignored two of the most important sectors.¹⁷ The dichotomy between the objectives and the allocation of resources is attributable to a split between the theoreticians in the Planning Commission and the realities of the political process. Professor Islam recounts the relationship of the planners to their political masters during the early days following independence:

The Prime Minister often implicitly assumed that the Deputy Chairman and the Members were not only fully aware of the hopes, aspirations and objectives of the party and fully shared them, but also that understood the limitations of action inherent in a political process where differing and sometimes opposing interest groups had to be accommodated in order to preserve the unity of the party and its continuance in power. Not being involved in the political process and in the party's deliberations, the Planning Commission did not fully appreciate the political feasibility constraints on economic policy-making and therefore could scarcely be in a position to weigh the political costs and benefits before offering its recommendations.¹⁸

We see then, that practical political considerations overshadowed the stated social objectives of the Government. In reality the alleviation of poverty played a minimal role for the new Government. Poverty actually worsened during the mid-1970s, culminating in the famine of 1974.¹⁹

In contrast to the objectives of social equity espoused in the First Five Year Plan in Bangladesh is what the Bangladesh Rural Advancement Committee (BRAC) termed "the net". It is worth pausing here for a more complete description of what is meant by "the net":

As they became more organised, as a result of our work [BRAC's] and their own efforts the landless people became more conscious of this disparity and was [sic] particularly aware that benefits intended for them; . . . were being intercepted by a net between them and the central government.²⁰

Another aspect of the First Five Year Plan was that the allocation of resources to the public sector was about 88 per cent of the total available,²¹ more than double the allocation for the public sector that had been proposed in the proposed Fourth Pakistan Plan, 33 per cent.²² This reflected the socialist objectives of the new government and of the Members of the Planning Commission. It ignored the practical problems of expanding the role of the public sector in a very short period.²³ Here we see that, where political and economic considerations coincided, the political gestures forced a pace that was not practical with the resources available. Granted, the Government faced serious problems brought on by the loss of management personnel in the private sector, but a more gradual transition would have resulted in less disruption.

The industrial strategy proposed was based on the principle of import substitution, particularly in the fields of engineering, iron and steel fabrication, chemical, textiles and sugar processing, not areas where Bangladesh had a particular comparative advantage. Seventy per cent of the new investment was to be in new enterprises.²⁴ Here in particular, the nature of the country's resources indicated that the emphasis should be on labour intensive types of small business that could be integrated into both the agricultural sector and larger scale industry.²⁵

This strategy was ignored in favour of those activities that catered to the small monied class and provided the most opportunity for the "appropriation" of resources either by unscrupulous businessmen, their agents and "facilitators", and by Government officials. In fact it perpetuated the approach so disparaged by the planners in Pakistan's economic strategy.²⁶

If we consider the objectives of the First Plan, what was accomplished was modest. Some reconstruction activity took place, but it took until 1978/79 for exports to achieve pre-War levels.²⁷ For one thing, Bangladesh had to find new markets for its traditional exports of tea, hides, matches and paper to (formerly) West Pakistan.²⁸

Considering the problems that were encountered during the period of the First Five Year Plan, the rise in the price of oil and the famine of 1974, there were some modest achievements. Growth was estimated at 4 per cent over the bench-mark against a target of 5.5 per cent resulting in real growth of about 6.1 per cent.²⁹ Per capita income grew at 1.1 per cent over the bench-mark against a target of 2.5 per cent.³⁰ Tax receipts increased from 4.29 per cent in 1973/74 to 7.93 per cent in 1977/78.³¹

TABLE 3.1
Sectoral Allocation First Five Year Plan

[Taka in Crore]

Sectors	Public	%	Actual	% ^A	Private	%	Total	%	Non-fin. ^B
1. Agriculture and Water	1,041	26.3%	31.7%	26	5.1%	6,059	24.0%	129	22.1%
2. Industries and Minerals	738	18.7	14.3	139	27.7	877	19.7	18	3.1
3. Power and Energy	522	13.2	14.0	-	-	522	11.7	-	-
4. Physical Planning and Housing	315	8.0	6.5	136	27.0	451	10.1	242	41.3
5. Transport	528	13.5	16.5	66	13.2	594	13.4	-	-
6. Communications	114	2.9	3.6	-	-	114	2.5	-	-
7. Education and Manpower	316	8.0	5.1	-	-	316	7.1	34	5.8
8. Health and	220	5.6	3.7	-	-	220	4.7	-	-
9. Family Planning	70	1.8	2.2	-	-	70	1.6	-	-
10. Government	26	0.7	-	-	-	26	0.6	-	-
11. Trade	62	1.6	-	108	21.3	170	3.8	101	17.3
12. Miscellaneous Services	-	-	-	28	5.7	28	0.6	61	10.4
	3,952	100.0%	99.8%	503	100.0%	4,455	100.0%	585	100.0%

Source: Planning Commission, The First Five Year Plan (Dhaka: Planning Commission, November 1973), tables p. 32.

^ACalculated from #6049 table 5.4, p. 29.

^BNon-financial was an estimate of economic activity in the non-monetary traditional sector.

Not much progress was made in providing the basic consumption items to the population. Industrial and agricultural growth stagnated and failed to regain their pre-war levels.³² Per capita availability of food grains slipped from 360.72 pounds in 1973/74 to 353.70 pounds in 1977/78, or -0.4 per cent per year. The availability of pulses increased at an average of 1.0 per cent from 5.7 pounds to 6.0 pounds per capita. By contrast, per capita availability of electrical power increased by 5.8 per cent per annum and cement by 25.0 per cent per annum. These were a reflection of the Hardcore Programme, a mid-term change toward more investment in the hard sectors, that took place in the latter years of the Plan.

Inflation was a serious problem due both to the mismanagement of the economy and to exogenous factors, such as the rise in the price of oil and commodities. The famine of 1974 also contributed to the situation. The general cost of living index rose at a rate of 50 per cent for the first two years,³³ but moderated during the latter period. The result was a decline in real terms of both agricultural and industrial wages from pre-War levels. Although there was some modest recovery in latter years agricultural wages were still at 63.8 (1969/70 = 100) in 1977/78.³⁴

Per capita income slumped from US\$95 in 1974³⁵ to US\$76 in 1975³⁶ and then recovered to US\$110 in 1976.³⁷

The consolidation of the socialist framework proceeded quickly, but was hindered by a shortage of skilled management and work force.³⁸ With the overthrow of President Mujib in 1975 the socialist framework collapsed although it wasn't until the third period that large scale privatisation took place.

Dependence on foreign aid increased dramatically. The Government improved the rate of domestic resource mobilisation from 4 per cent to almost 8 per cent where it still hovered at the end of this study in 1986. The contribution of foreign aid to development outlay rose from the projected 40 per cent to some 78 per cent.³⁹

The transformation of the agricultural sector did not take place and self-sufficiency was not achieved. By 1974/75 agriculture was still only 87 per cent of the 1969/70 level. The period ended in a famine and the recovery period which succeeded it. The institutional base was neglected and institutional development remained an elusive goal.

Population planning stagnated and it was not until the end of the third year of the Plan that the Government adopted a comprehensive population policy.⁴⁰ Family planning among eligible families, static during the first years of the Plan, increased from 9.6 per cent of eligible couples in 1975 to 14 per cent in 1979/80.⁴¹

Investment in the social sectors, particularly education, was well below planned levels while spending in the hard infrastructure sectors exceeded Plan projections (see Table 3.1).

Distribution of income deteriorated during the period for which there is data, 1973/74 to 1977/78 and was worse than the preceding decade (see Tables 4.1 and 4.4).

Islam, reviewing the strategy of the Plan in his book Development Planning in Bangladesh, makes virtually no mention of the goals of equity or the reduction of poverty. The First Five Year Plan was strongly criticised by the World Bank which made much of the growing corruption⁴² among the leadership in their "green cover" report. "New men had access to political power for the first time with little conception of how to use it for purposes other than self-aggrandisement."⁴³ About corruption they said "The example is set at the political level where scarcely a foreign exchange transaction takes place, either on import or export, without some funds being deposited in the foreign bank account of a politician, businessman or some well connected individual."⁴⁴ Sobhan objects to this criticism. He states that in other countries where the World Bank operated such as Pakistan, Indonesia and Kenya there was also no lack of corruption or inefficiency. It had not, however, been a central theme to their country economic memoranda.⁴⁵

Sobhan argues that the strategy of the World Bank was to formulate its views and then leak them to the other donors via the "green cover" report.⁴⁶ The remaining objections of the World Bank were the limited role for the private sector, the restriction of the market by Government controls and the goals and assumptions stated in achieving self-reliance.⁴⁷ We can conclude that the early period of independence was characterised by conflict between the World Bank and the Government, increasing evidence of the misuse of funds and the growing use of patronage.

By 1973/74 and 1974/75, the combination of declining aid revenues⁴⁸ and the worsening external economic environment⁴⁹ had combined to plunge the country further into economic difficulties. The tone of the Government changed. They agreed to a new

economic policy giving a much broader role to the private sector.⁵⁰ They formed a regular donor consortium chaired by the World Bank⁵¹ in marked contrast to their insistence on organising it and chairing it themselves in 1973. There was, by 1975, agreement with the IMF on a structural adjustment programme. This included a drastic restructuring of import procedures, liberalisation of imports, tight curbs on credit, restraint on wages and salaries and a reduction of subsidies.⁵² There was a determined effort on the part of the leadership to attract more foreign aid. This even included a visit by Sheikh Mujib to the United Nations and to Washington. The declining influence of the Planning Commission,⁵³ the original brain trust that had been established to guide the economic policy of the country, led to a loss of the original objective of social equity. The period ended with the assassination of Mujib and continuing instability. The inception of a modest American military programme indicated a significantly changed attitude toward the new Government.

The implication of the First Five Year Plan's objective is that we might have expected to find greater effort to ensure that goods and services intended for the poor did actually reach them. In the second half of the 1970s the systems for the "appropriation" of resources were developed to an art.

The Two Year Plan: The Two Year Plan which followed the end of the First Five Year Plan was written as an interim measure. The upheaval of the time had not allowed concentration on economic planning, an indication of the Government's other preoccupations. The Government's main objective was staying in power. Furthermore, the philosophy had change dramatically from the socialist ideology that had characterised Sheikh Mujib's government.

Investment in agriculture during the Two-Year Plan again concentrated on the infrastructure to develop water resources. This we shall see benefited mainly the larger farmers who already had the resources to invest in improved varieties of seed and fertiliser. Likewise, we will see in the section on agriculture that investments in capital intensive irrigation equipment, such as deep and shallow tube-wells, were unlikely to benefit the poor. The wealthier elements of the community generally gained control of the access to the resources that are required to increase productivity.⁵⁴

TABLE 3.2
Sectoral Allocation of the Two Year Plan

[Taka in Crore]

Sectors	Public	%	Actual % ^A	Private	%	Total	%
1. Agriculture, Water and RD	898	27%	29.4%	70	12%	968	25%
Agriculture	(425)		(13.7)				
Water Resources	(325)		(12.2)				
Rural Development	(148)		(3.5)				
2. Industries	570	17	17.3	246	41	816	22
3. Power, Natural Resources & STR	471	14	16.9	..	..	471	12
Power	(296)						
Natural Resources	(136)						
STR	(39)						
4. Transport & Communications	580	18	19.2	126	21	706	18
Transport	(450)		(16.0)				
Communications	(130)		(3.2)				
5. Physical Planning and Housing	250	8	6.3	140	23	390	10
6. Education, Training & Public Admin. 180	6		3.3			180	5
Education & Training	169						
Public Administration	11						
7. Social Sectors	250	8	7.6			250	6
Health	(118)		(3.1)				
Population & Family Planning	(100)		(2.8)				
Labour & Training	(16)		(0.4)				
Social Welfare	(16)		(0.7)				
8. Development Boards & Other	62	2	0.6	18	3	80	2
	3,261	100%	100.0%	600	100%	3,861	100%

Source: Bangladesh, Planning Commission, The Two-Year Plan: 1978-80 (Dhaka: Planning Commission, 1978), table 4.1, p. 44.
^A Calculated from World Bank, Bangladesh: Recent Economic Developments and Medium Term Prospects, Report No. 6049, table 5.4, p. 29.

The Second Five Year Plan. The results of the Second Five Year Plan were equally disappointing. Having satisfied the need to acknowledge the problem of poverty it continued to suggest a sectoral allocation of public and private resources that bore little relation to the foregoing objectives which emphasised poverty in the rural areas attributable to malnutrition, illiteracy and over-population.

Growth was a respectable 3.8 per cent over the Second Plan period.⁵⁵ There is, however, abundant evidence that the goals of improving the standard of living and providing access to the basic needs of the population were not achieved. Professor Hossain expressed it best in his summary of the Report on Rural Poverty:

Our analysis and findings leave little room for doubt that the process of impoverishment in the rural areas has been gathering momentum during the last few decades.⁵⁶

Food grain self-sufficiency remained as elusive as during previous plan periods. Per capita availability of food grains increased at only 0.4 per cent per annum while pulses, a staple in the Bangladeshi diet, declined by an average of 2.6 per cent per annum to only 4.4 pounds. Food aid rose from 825,775 tons in 1980/81 to 1,315,971 in 1984/85 an average increase of almost 10 per cent per annum.⁵⁷ The total import of food and live animals went from 9.2 per cent of commodity imports in 1980/81 to 15.6 per cent in 1984/85.⁵⁸

The growth of the rural labour force increased an estimated 2.48 million between 1979/80 and 1984/85 and the crop sector alone was not able to absorb this increase.⁵⁹ While the growth of the garment sector provided opportunities for urban workers, mainly women, the rural sector did not fare so well. The rapid rise in the use of mechanised milling for rice meant that some 2.0 million people lost their traditional source of employment.⁶⁰

Figures for the exact period of the Third Five Year Plan are not available, however, literacy declined from 20.2 per cent in 1974 to 19.7 per cent in 1981.⁶¹ For the same period school attendance rate increased from 18.7 per cent to 22.5 per cent for 5 to 9 year olds, but deteriorated from 33.8 per cent to 33.3 per cent for 10 to 14 year olds, from 18.8 per cent to 17 per cent for 15 to 19 year olds, and from 7.5 per cent to 7.0 per cent for 20 to 24 year olds.⁶²

A major target of the Second Five Year Plan was to increase the contraceptive rate to 37.5 per cent, however, the estimated rate at the end of the Plan was only 25

per cent.⁶³ It was generally acknowledged that the population growth rate had dropped from about 2.9 per cent per annum to about 2.5 per cent.⁶⁴

The Government did move forcefully on the decentralisation of some government activities to the upazila level. It provided resources for the construction of physical infrastructure and decided to carry out some major government programmes through the upazila structure. This provided welcome rural employment, but it still remained to be seen in 1986 whether the Government could attract sufficient skilled personnel to actually implement these programmes.⁶⁵

The Target of the Second Plan had been to attain a tax/GDP ratio of 9.5 per cent, however, the ratio at the end of the period was estimated to be only 8.3 per cent,⁶⁶ scarcely above the 8.0 per cent it had achieved at the end of the First Five Year Plan some seven years previous. The balance of payments situation remained stable despite a trade deficit that ranged from \$1,822.3 million in 1980/81 to \$1,531 million. Aid disbursements rose from \$1,147.2 million in 1980/81 to \$1,268.0 million in 1983/84, reaching as much as \$1,345.5 in 1982/83.

A few projects did make some progress in seeking to address the problems that the plans sought to overcome. The Grameen Bank, started as an experiment to make available credit to people without resources or collateral, has met with success.⁶⁷ The Proshika Projects, Proshika Comilla and Proshika Kendra have done the same on a very limited basis. The Netherlands had some success in the settlement of landless peoples on Khas, or Government, lands. The economic analysis of the reclamation of land for the Sandwip Crossdam Project, a project designed to accrete land which would then be distributed among the landless, reached some startling conclusions. They arrived at a rate of return for the settlement of landless people that was estimated to be some 4 to 5 times the rate of return that would accrue if the land were sold to the wealthier farmers in the area.* The World Bank financed programme, Rural Development I, was designed to replicate the Comilla Model of cooperative development and is the main effort during the period to help the poorest people. It was generally regarded as a failure.⁶⁸

*This is one of the few analyses available that compares returns from traditional investment to those from investment in the alleviation of poverty.

TABLE 3.3
Sectoral Allocation of the Second Five Year Plan
(1979/80 prices)

[Taka in Crore]

Sectors	Public	%	Actual %	Private	Total
1. Agriculture, Water and Rural Development	3,802	34.3%	29.7%	2,257	6,059
Agriculture	(1,470)	(13.3)			
Water Resources	(1,850)	(16.7)			
Rural Development	(482)	(4.3)			
2. Industries and Minerals	1,390	12.5	9.3	1,769	3,159
3. Power and Energy	2,052	18.5	22.3	..	2,052
4. Transport and Communications	1,524	13.7	15.6	976	2,500
5. Physical Planning and Housing	574	5.2	5.2	1,098	1,672
6. Social Economic Sectors	1,758	15.8	10.5	..	1,758
7. Other & Upazilas	-	-	7.3		
	11,100	100.0%	99.9%	6,100	17,200

Source: Planning Commission, *The Second Five Year Plan* (Dhaka: Planning Commission, May, 1983), tables 3.2 and 3.3, p. 41-42.

^ACalculated from World Bank, *Bangladesh: Recent Economic Developments and Medium Term Prospects*, Report No. 6049, table 5.4, p. 29.

In Table 3.3 we see that once again most of the development budget was devoted to sectors where there is little if any benefit to the poorer elements of society. In Table 3.4 we can see the sectoral distribution of the actual disbursement of aid in the Annual Development Plan.

The growth of an increasingly aid-dependent economy during the mid-seventies, was reflected by the continuing large proportion of Government revenue derived from aid.⁶⁹ The growth in the imbalance of trade required increased financing from foreign aid. This, combined with population growth, soon led leaders to set aside the early objective of self-reliance as an immediate goal, in favour of pursuing more rapid growth in areas such as the industrial sector, the Hardcore Programme. It was felt that the poor would bear the brunt of the quest for self reliance.⁷⁰ Essentially it was the pursuit of economic development through the "trickle down" approach.

From 1975 to 1980 the political leadership had changed dramatically from the socialist Mujib regime to a martial law regime under President Zia. The latter subsequently legitimised his government with suspect presidential elections on June 3, 1978 and with equally questionable parliamentary elections on the 18 February 1979. Some participants were cynical enough to state publicly that they were held in order to satisfy the donors, specifically the United States.⁷¹

TABLE 3.4
Sectoral Allocation of Annual Development Programmes

	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
	Revised Budget	Revised Budget	Revised Budget	Revised Budget	Revised Budget	Revised Budget	Revised Budget	Revised Budget	Actual Disb.	Actual Disb.	Actual Disb.	Actual Disb.	Prelim Actual	Budget
Agriculture	1,350.0													
Crops	n/a	576.0	639.0	1,150.0	1,529.0	1,540.0	2,344.0	2,938.0	2,823.0	3,145.0	4,154.0	4,764.0	2,870.0	2,188.0
Rural Development	n/a	306.0	285.0	480.0	420.0	510.0	619.0	748.0	981.0	100.0	1,039.0	736.0	120.0	1,097.0
Irrigation	n/a	697.0	860.0	1,360.0	1,199.0	1,430.0	1,725.0	2,972.0	4,089.0	3,689.0	3,189.0	3,893.0	3,930.0	4,095.0
Industry	294.0	525.0	650.0	1,360.0	1,430.0	1,900.0	3,040.0	3,627.0	2,776.0	2,700.0	2,470.0	2,336.0	2,410.0	4,738.0
Power & Natural Resources	n/a	537.0	712.0	1,510.0	1,313.0	1,680.0	2,525.0	3,989.0	3,759.0	5,114.0	5,788.0	6,971.0	8,800.0	7,927.0
Transport	1,157.0	965.0	812.0	1,250.0	1,962.0	1,760.0	2,135.0	4,040.0	4,659.0	3,703.0	3,947.0	2,448.0	2,690.0	2,747.0
Communications	n/a	131.0	186.0	345.0	307.0	510.0	431.0	802.0	669.0	789.0	990.0	629.0	780.0	561.0
Physical Planning & Hsg	307.0	233.0	340.0	660.0	630.0	810.0	966.0	1,448.0	1,559.0	1,465.0	1,300.0	1,636.0	1,140.0	969.0
Social Sector	870.0													
Education	n/a	307.0	288.0	450.0	473.0	580.0	641.0	649.0	970.0	861.0	1,052.0	1,370.0	1,380.0	1,651.0
Health	n/a	207.0	218.0	330.0	320.0	430.0	476.0	700.0	612.0	692.0	739.0	708.0	930.0	757.0
Family Planning	n/a	50.0	77.0	250.0	216.0	310.0	467.0	593.0	466.0	400.0	712.0	857.0	1,020.0	1,287.0
Social Welfare	n/a	21.0	20.0	40.0	29.0	50.0	65.0	216.0	191.0	205.0	121.0	142.0	160.0	150.0
Manpower	n/a	3.0	13.0	30.0	20.0	40.0	69.0	97.0	91.0	69.0	246.0	242.0	130.0	115.0
Upazila Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	73.0	3,196.0	3,960.0	4,250.0
Cyclone Reconstruction	n/a	80.0	150.0	285.0	80.0	140.0	162.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	n/a	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	79.0	1,057.0	132.0	1,410.0	5,724.0
Total	3,978.0	4,638.0	5,250.0	9,500.0	9,928.0	11,690.0	15,665.0	22,869.0	23,645.0	23,011.0	26,877.0	30,060.0	31,730.0	39,347.0

Source: World Bank, Bangladesh: Recent Economic Developments and Medium Term Prospects, Report No. 6049, table 5.4, p. 29.

TABLE 3.5
Percentage Sectoral Allocation of Annual Development Programmes
(As a percentage)

	73	74	75	76	77	78	79	80	81	82	83	84	85	86	Avg.
Agriculture, Water & RD	26.3%														
Crops	n/a	12.4%	12.2%	12.1%	15.4%	13.2%	15.0%	12.8%	11.9%	13.2%	15.5%	15.8%	9.0%	5.7%	12.1%
Rural Development	n/a	6.6	5.4	5.1	4.2	4.4	4.0	3.3	4.1	4.2	3.9	2.4	0.4	2.9	3.3
Irrigation	n/a	15.0	16.4	14.3	12.1	12.2	11.0	13.0	17.3	15.4	11.9	13.0	12.4	10.7	13.0
Industry	5.7	11.3	12.4	14.3	14.4	16.3	19.4	15.9	11.7	11.3	9.2	7.8	7.6	12.4	11.8
Power & Natural Resources	22.5	11.6	13.6	15.9	13.2	14.4	16.1	17.4	15.9	21.4	21.5	23.2	27.7	20.7	19.9
Transport	22.5	20.8	15.5	13.2	19.8	15.1	13.6	17.7	19.7	15.5	14.7	8.1	8.5	7.2	13.0
Communications	n/a	2.8	3.5	3.6	3.1	4.4	2.8	3.5	2.8	3.3	3.7	2.1	2.5	1.5	2.8
Physical Planning & Housing	6.0	5.0	6.5	6.9	6.3	6.9	6.2	6.3	6.6	6.1	4.8	5.4	3.6	2.5	5.2
Social Sector	16.9														
Education	n/a	6.6	5.5	4.7	4.8	5.0	4.1	2.8	4.1	3.6	3.9	4.6	4.3	4.3	4.2
Health	n/a	4.5	4.2	3.5	3.2	3.7	3.0	3.1	2.6	2.9	2.7	2.4	2.9	2.0	2.8
Family Planning	n/a	1.1	1.5	2.6	2.2	2.7	3.0	2.6	2.0	1.7	2.6	2.9	3.2	3.4	2.6
Social Welfare	n/a	0.5	0.4	0.4	0.3	0.4	0.4	0.9	0.8	0.9	0.5	0.5	0.5	0.4	0.6
Manpower	n/a	0.1	0.3	0.3	0.2	0.3	0.4	0.4	0.4	0.3	0.9	0.8	0.4	0.3	0.5
Upazila Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	10.6	12.5	11.1	4.5
Cyclone Reconstruction	0.0	1.7	2.9	3.0	0.8	1.2	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	3.9	0.4	4.4	15.0	3.3
Total	99.9% ^A	100.0%	100.3%	99.9%	100.0%	100.2%	100.0%	99.9%	99.9%	100.1%	100.0%	100.0%	99.9%	100.1%	100.0%

Source: Calculated from World Bank, *Bangladesh: Recent Economic Developments and Medium Term Prospects*, Vol. II, Statistical Appendix, Report No. 6049, table 5.4, p. 29.

^ATotals not equal to 100% are due to rounding errors.

Corruption became even more evident in Zia's time than it had been during the Mujib regime, but the donor reaction to it had changed. The Government was by this time making a distinct effort to cultivate the western members of the donor community, and corruption was no longer a major issue or an impediment to development assistance as it had been during Mujib's rather more confrontational regime.

Zia himself was an ambiguous figure concerning corruption. Even his detractors concede that he was honest with his personal finances.⁷² They maintained, however, that he tolerated corruption to an unprecedented level in his regime. Conjecture has it that he encouraged it so that those around him would be vulnerable.⁷³ His actions appear to support this. Elections were rigged.⁷⁴ Mascarenhas argues that he even became President illegally, and in contravention of the Constitution, by backdating documents, thus changing his status to conform to the letter of the law.⁷⁵

An exchange in the Parliament reported in the Far Eastern Economic Review in July of 1980 gives some idea of how deeply corruption had compromised the Government:

Reports of massive corruption involving some ministers prompted a startling scene in parliament. State Minister Atedden Khan in charge of the Manpower Ministry was singled out at the BNP parliamentary meeting on June 30 by MPs for alleged corruption over recruitment of 2700 cleaners for coveted jobs in Saudi Arabia. The kickbacks were said to amount to more than US\$ 3.2 million.

London-trained barrister Abdul Hasnat, who is chief whip of the ruling party and Mayor of the Dacca Municipal Corporation, was accused of sharing the money with Khan . . .

An exasperated Khan then exploded "Why only me? Don't you see the Commerce Ministry? Corruption is going on in that ministry on a monstrous scale. Licenses and permits worth crores [tens of millions] of taka are being issued for money. . . ."⁷⁶

This was corruption at the highest levels of the Government, but it was also evident at lower levels. The Bangladesh Rural Advancement Committee, carried out research on drought affected areas in 1979.⁷⁷ In it they documented the power structure in 10 villages. BRAC researchers described how, if Government relief efforts had been successful, the presence of the Bangladesh Rural Advancement Committee would have been superfluous.⁷⁸ They showed how, by establishing ties between locally prominent people and local government officers, this coalition was able to divert resources meant for the poor and control resources, such as timber, in the rural areas.⁷⁹

If anything, then, in this second period we see an increase in corruption rather than a decrease. Unlike the problems Sheikh Mujib had faced in 1974 in securing aid, the donors appeared willing to keep on giving. The conclusion is inescapable as Sobhan

has intimated.⁸⁰ The prime motivating factor behind the World Bank's concern at corruption in their criticism of the First Five Year Plan was less the potential damage to the economy than pique at being left out of the formulation of the Plan.⁸¹ Corruption ceased to be an issue once the country's economic policies were formulated in an atmosphere of cooperation. The tone of the World Bank's review of the Second Five Year Plan in 1981 gives some indication:

There is now a growing recognition among policy makers in Bangladesh that a more comprehensive program of reform [of Government incentives for the private sector] needs to be undertaken. The initial studies necessary for a long term program of reform to the incentive system and the institutional structure for implementing policy reforms are currently the subject of discussion between IDA and the Government.⁸²

The 1981 to 1986 period coincides with the last year of Zia's regime, the interim Sattar Government and President Ershad's regime. Much of Ershad's efforts were spent attempting to return the country to nominally legitimate government, and assuring his own position assured as President, in much the same manner as President Zia.

He continued to pursue much the same economic policy that Zia had. Many of the state enterprises had been returned to private ownership and relations with the donors, particularly the Americans, remained cordial. In 1984 the World Bank report on the economy was very positive on the state of the economy and the attitude of the Government. Such statements as "There has been impressive progress towards this goal in recent years, [maintenance of food self-sufficiency at adequate levels of caloric intake] but the momentum will have to be sustained",⁸³ and "the Government took a series of courageous decisions to stabilise the economy in FY83" seemed to bode well for the economic future of the country.⁸⁴

There were, however, some who, based on their personal experience in the rural areas, disagreed with this view. The Like-Minded Group (Dhaka) commissioned an alternate report on the state of rural poverty. It is worth recalling the origins of the "Report on Rural Poverty in Bangladesh" here:

The "Report on Rural Poverty in Bangladesh" originates from just one such meeting [of the Dhaka Like-Minded Group] following the presentation of the draft CEM to the Local Consultations Group by the World Bank in February 1984. There was a sense of frustration in the group that while the tone of the report was more positive than in previous years it suggested the same remedies that had been suggested during far more critical times, remedies that supported the Bank's leverage with the Government, and furthermore that it concentrated almost wholly on the issue of economic growth, virtually ignoring the issue of the problems facing marginal farmers and the growing landless population. . . . It was this sense of frustration that prompted the suggestion from the

group that they sponsor an alternate report on the plight of the poor and landless. This was later modified to the suggestion that, . . . [the] Like-Minded Group sponsor a supplementary report [to the World Bank's] that might be presented to the Aid Donor Meeting in Paris in April 1985.⁸⁵

There were several conclusions to the Report, but this statement in Hossain's summary of the "Report on Rural Poverty" sets out the core of the problem:

Thus it is essential to understand the nature and role of the state in analysing the impact of government programmes and development assistance on rural poverty. Its [the Government's] function has become increasingly to mediate in the distribution of resources among the competing interest groups. In this process a vicious circle has developed in which the government has become involved, willingly or not, in a patronage system, aided by external assistance, which merely strengthens the self-preserving ruling coalition who are content to contain the discontent of the majority.⁸⁶

The conclusions of the "Report on Rural Poverty in Bangladesh" were not unlike the conclusions of the Bangladesh Rural Advancement Committee studies. There was significant "appropriation" of resources by various interest groups. Nutritional levels were declining. The government was using aid as a form of patronage.

Conditions in the rural areas were getting worse rather than better despite the thousands of millions of dollars that had poured into the country since independence. Corruption during this period is more difficult to document. Many of those suspect are still in power. While accusations still come from the outside there was little visible dissent in the country itself until 1987, a period outside the scope of this study. Even this appears to have been effectively quelled. Neither were the donors very interested in pursuing the allegations that did surface. Aid funds continue to flow.*

The Government took strong exception to the "Report on Rural Poverty" and to the statement quoted above in particular. They attempted to restrict the distribution of the report particularly within Government.** They resisted a seminar requested by the Like-Minded Group, but finally organised one in March 1986. The leaders of the working groups, all drawn from the bureaucracy, prepared the conclusions of the meetings before they were held. Although some did later rewrite the conclusions to reflect the views expressed by the participants, most of them presented the findings against the protests of the participants in the final plenary session. The proceedings of

*Donors at the 1989 Aid Donor Meeting in Paris actually pledged more than the World Bank had estimated was needed.

**The writer, who was at the time coordinating the démarche of the Like-Minded Group with the Government and the World Bank, was asked by the Economic Advisor to the President, and de facto Minister of Finance, not to distribute the Report widely and particularly not to send it to any Government officers. This resulted in the bizarre situation where the Director General for Europe and the Americas in the Ministry of Foreign Affairs, the man at least nominally responsible for relations between Bangladesh and the bilateral donors was prohibited by his own Government from seeing a controversial document that could potentially have an impact on both relations and future aid flows.

the seminar, although tape recorded, have, to date, never been released by the Government. The World Bank appeared split over the issue. The Resident Mission and country desk cautiously supported the initiative while the senior management, particularly the regional vice-president, was opposed and resisted it consistently.*

The foregoing illustrates several things. There was increasing sophistication of the recipient in dealing with donors who attempted to bring a poverty oriented focus to their development efforts. There was a lack of aggressiveness on the part of the donors in trying to bring about some change in the way aid was used. There was resistance by the World Bank to any multilateral initiative that might conflict with its appreciation of the economic situation in the country.

It is too soon to be able to provide much hard empirical evidence on this most recent period concerning the levels of corruption within the economy. There is little, if any, evidence to lead us to different conclusions than have been reached for either of the two previous periods we are concerned with. The issue of corruption was still in the forefront. On August 30, 1986 the London Observer ran a feature alleging that the President himself, and his family were involved in numerous enterprises that earned both foreign exchange and illegal profits for them.⁸⁷ There appears to have been little official concern over these allegations in the face of increasing evidence of corruption among senior members of the regime. Economic performance has been good, but equity appears to have suffered in the process.

Thus in reviewing the general efforts and results of the Government during the various periods, we find, as our model predicted:

- A concentration on short term policies that neglect the longer term problems,
- The deterioration of the lofty objectives that characterised the leadership of the country when it first gained its independence,
- Continuing poor administration,
- That most of the objectives set out in the plans have only been partially achieved or not achieved at all.

*The experience is based on the writer's participation in the process from March 1984 until August 1986.

The Food Distribution System and Relief

The Food Distribution System in Bangladesh has had a profound effect on the economy and on the economic policies of the country. It owes its origins to the devastating Great Bengal Famine of 1943⁸⁸ in which between 1.5 million⁸⁹ and 3 to 4 million people⁹⁰ lost their lives. Its primary purpose, however, has changed from a safeguard to a method of dispensing patronage on a broad scale. Originally established to ensure sufficient food is always available and to intervene when prices fluctuated too much, it has become, under the management of the Ministry of Food, the recipient and distributor of food aid.

The System is made up of several different channels designed to serve various parts of the population. They are: Statutory Rationing, Priority Categories, Modified Rationing, Relief and Vulnerable Group Feeding (VGF), Food for Work (FFW), Marketing Operations and Open Market Sales (OMS).

The three largest components of the System are Statutory Rationing, Priority Categories and the Modified Ration System. Together they account for utilisation of 58.1 per cent of the food which was distributed through the System between 1973/74 and 1984/85.

The Statutory Rationing System is confined to residents of the six major urban centres of Bangladesh: Chittagong, Dhaka, Khulna, Narayaganj, Rajshahi and Rangamati. It accounts for 20.1 per cent of the food distributed. Originally all residents of these cities were entitled to ration cards, but no non-government employees have been added to the system since 1974. By 1979 it was estimated that only 63 per cent of the urban areas, about 3.7 million people, were covered by the Statutory Rationing System.⁹¹REF

The Priority Categories are comprised of government employees, employees of para-statal organisations, members of the military and police, employees of flour mills and educational institutions, inmates of orphanages, hospitals and jails and finally employees of private sector firms employing fifty or more persons. Approximately 5.7 million persons were covered by Priority Categories in 1979⁹² accounting for 34 per cent of the food distributed.

TABLE 3.6
The Public Food Grain Distribution System
('000 long tons)

	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	Total	Average
Opening Stocks	297	214	749	823	376	591	209	779	1,229	625	611	800		
Domestic Procurement	71	128	415	314	550	355	348	1,017	298	192	270	349	4,307	
Total Imports	1,670	2,292	1,477	780	1,678	1,146	2,739	1,059	1,236	1,844	2,058	2,588	20,567	
Food Aid	1,305	1,625	1,233	854 ^A	1,304	1,107	1,830	826	1,125	1,093	1,364	1,316	14,982	
Total Availability	2,038	2,634	2,641	1,917	2,604	2,092	3,296	2,855	2,763	2,661	2,939	3,737		
Statutory Rationing	502	471	359	377	451	417	492	343	307	307	293	266	4,585	20.1%
Priority Categories	396	554	584	551	753	754	907	601	656	647	641	711	7,051	34.0
Modified Rationing	777	578	496	288	353	312	385	179	483	368	399	465	5,083	22.3
Relief and VGF	52	161	110	33	30	45	57	50	70	84	120	340	1,152	5.1
Food for Work	-	-	116	166	255	216	440	349	365	411	441	571	3,330	14.6
Marketing Operations	-	-	11	58	6	9	10	-	104	70	51	8	327	1.4
Open Market Sales	-	-	-	-	-	43	111	-	50	48	107	201	560	2.5
Total Distribution	1,728	1,762	1,677	1,473	1,847	1,796	2,402	1,522	2,036	1,935	2,052	2,562	22,088	100.0%
Losses	96	148	149	68	166	87	115	104	82	96	87	167	1,365	
Repayments	-	-	-	-	-	-	-	-	20	-	-	-	20	
Closing Stock	214	729	823	376	591	209	779	1,229	625	611	800	1,008		

Source: Figures for 1973/74 to 1983/84, World Bank, Bangladesh: Economic and Social Development Prospects, Vol. IV: Statistical Appendix, Report No. 5409, April 12, 1985), table 10.2, p. 135. 1984/85 figures, World Bank, Bangladesh: Recent Economic Developments and Medium Term Prospects, Vol. II: Statistical Appendix, Report No. 6049, March 17, 1986), table 7.10, p. 52. figures for donor supplied food aid are from Bangladesh, External Resources Division, Flow of External Resources into Bangladesh (As of June 30, 1985).

^AThis may be a discrepancy or food aid on the high seas may have been included in the Government's figures in order to show a high stock level at the end of the fiscal year, sometimes an important psychological factor in showing speculators that the government is in control of the situation in order to minimise speculation.

The Modified Rationing System was established to ensure that food did reach the poorest elements of the rural population. In theory it is targeted at the lowest income groups in small urban and rural areas. Recipients under the system, however, receive only half the ration that the other two categories receive.⁹³ Modified Rationing is also treated as a residual after the requirements of Statutory Rationing and the Priority Categories have been met.⁹⁴ It accounts for 22.3 per cent of the food distributed.

The Relief Programme covers both relief in times of food shortage, such as the famine of 1974, the food shortage of 1979. The Vulnerable Group Feeding Programme was established in 1975 to provide supplementary source of nutrition for what were considered the most disadvantaged groups in the society. These were women in the poorest rural areas and pre-school children under three years of age.⁹⁵ Choice of the beneficiaries of the programme is delegated to the Union Councils who choose the recipients. There is considerable evidence that many beneficiaries are chosen for political reasons rather than objectively under the criteria dictated by the programme.⁹⁶ Table 3.5 shows that the Relief Programme comprised only a small proportion of the total food in the ration system. In 1974, a year of famine, only 9.9 per cent of total food aid, 9.1 per cent of all food distributed, went into relief. This figure demonstrates more graphically than anything else the importance that the Government places on the non-relief components of the Food Distribution System. They subsidise particular groups that are already relatively privileged, rather than the poorer elements of the society. We shall see there is considerable reason for believing that even in the single year, when the Relief Programme accounted for more than six per cent of the food that was handled by the system, only a fraction of it reached those for whom it was intended.

The Food for Work Programme, which also includes the canal building projects initiated under President Zia, was used to employ the poorest elements of the community during the winter season. During this season the ground is dry and it is possible to construct earthen embankments to control flooding and drainage for the wet season. These were built under the supervision of the Ministry of Relief and Rehabilitation.* Food for Work has utilised 14.6 per cent of the food that has been distributed by the Food Distribution System. The Food for Work Programme is one method

*During some periods Relief and Rehabilitation has been an independent ministry itself while at other times it has been a division of the Ministry of Food.

by which some of the food aid can be converted into infrastructure. Such construction, to be truly effective however, requires a corresponding investment in appurtenant structures such as sluices, bridges and culverts. It also requires that drainage be provided to protect them, entailing additional financial investment. This requirement for additional cash resources is a disincentive to expanding such programmes since there is a constraint on domestic resources. It would require that additional funds be raised from taxes or diverted from alternative uses to pay for the additional expenses, neither a welcome prospect. The Food for Work Programme consumes an increasing proportion of the food, but there are limitations to its use.

The Open Market Sales Programme was established to encourage the Government gradually to reduce the subsidy to privileged groups that it provides. Table 3.3 shows the programme has met with only limited success. In 1984/85, the year the highest level of Open Market Sales was reached, it only accounted for 7.8 per cent of all food grains distributed. No other previous year exceeded 6 per cent.

Open Market Sales Programme was also designed to put food on the market when prices rose past a specified trigger price. This was to increase supply and to prevent drastic price increases such occurred in 1973 and 1974. It was, however, not used in 1984 when floods destroyed part of the food grain crop.⁹⁷

Supporters of food aid in the donor countries would probably be very surprised to discover that, of all the food aid given to Bangladesh since independence, only 5 per cent of the total volume that has been distributed by the Food Distribution System has been allocated to the Relief and Vulnerable Group Feeding Programmes. Fourteen point six per cent has been allocated to Food for Work. Another 22.3 per cent has gone into the modified ration system.

The Food Distribution System has evolved from a safety system designed to protect vulnerable groups in difficult times, to a means for keeping the middle classes satisfied at minimal cost to the Government. In 1976, for example, 90 per cent of the food supplied by donors was channelled into the Food Distribution System and distributed to ration card holders. These were mainly urban dwellers, including the civil service, army and police. The cost to them was about two thirds the prevailing market price. About one third of the ration card holders are rural dwellers. They, however, have the last call on the available food and receive half the ration of an urban dweller. Ten

per cent was distributed in the form of Food for Work or through the Vulnerable Group Feeding Programme.⁹⁸ The result was that when prices rose in 1974 in anticipation of food shortages brought on by flooding, the privileged groups could purchase rice at one fifth the market price. The Government chose not to divert food from the ration system to areas where there had been crop losses pleading that the problem was one of supply. The World Bank chose not to argue the point, although knowledgeable observers at the time maintained that adequate stocks were available.⁹⁹ It is estimated that between 30,000 and 100,000 people, mainly landless rural poor, died as a result.¹⁰⁰

Thus, during the first period, as relief goods were entering the country they were being diverted by members of the new regime. Lifschultz recounts the case of Gulam Mustafa who was President of the Dacca City Awami League and Chairman of the Bangladesh Red Cross. He "established a multi-million dollar black market operation in relief goods which became the principal source of party financing". Lifschultz quotes the Director of UNROB as observing that only one in seven tins of baby food and one in thirteen blankets received ever reached the recipients for whom they were intended.¹⁰¹

From a Government's purely pragmatic point of view, the Food Distribution System is, in the imperfect world of Bangladesh, a useful resource. First, food can be used to supplement the salaries of both those employed by the Government, the bureaucracy, the armed forces, and the police. Second, the advantage of having an assured supply of food in the shops throughout most of the year promotes political stability. Third, the sale of food, even at a subsidised price, provides additional revenue that can be used for other purposes. Fourth, this revenue obviates the need to increase the domestic resource mobilisation effort. Finally even the pressure from the World Bank and other donors does not pose a problem. They are prepared, not only to tolerate this use of food aid, but to encourage it.

Much of the benefit to the middle class consumer is in the convenience of having access to an assured source of supply, rather than simply the price advantage over the open market system. The price differential between the ration price and the open market system has narrowed in recent years and is no longer a critical factor. The increases in price imposed at the behest of those donors intent on reducing subsidies work in favour of the Government in a perverse way. The Government can derive more

revenue when the price is increased, but can put the blame for increased prices on donor pressure.

The ration system thus serves several purposes. It is a source of fungible revenue for the Government. It is a bonus for particular groups in society. For some donors who are particularly anxious to be able to disburse, it is quick, when compared to other forms of aid. It addresses the donors' own domestic problems as well as fulfilling obligations to overseas development assistance.

The reduction of the ration system would provide a market incentive for increased production. Some aspects of it could be preserved to ensure that food programmes targeted at the poorest classes were maintained so that they were assured of sufficient food until wage rates rose. An increase in the Food for Work Programme, besides requiring additional funds to finance the construction of ancillary structures, is only seasonal. Both alternatives have limitations. Given a bureaucracy that is essentially based on the generalist approach to the administration of Government,¹⁰² and which is subject to frequent transfers of personnel,¹⁰³ there is little incentive to change and much support for the status quo. Furthermore, the donors are quite content with the situation. For example, the President of CIDA visited Bangladesh in April of 1975 and reported in part to the Secretary of State for External Affairs:

It is indeed a sad fact that part [*sic*]* of our food aid does not reach those for whom it is meant. We know that the existing ration system does not guarantee the sharing of foodstuffs between rural and urban areas, or between those who need the most and who need the least. . . It still has a large bias towards serving the urban areas, which by Bangladesh standards are basically middle class.¹⁰⁴

It was, however, more than five years before the programme took significant steps to target a percentage of Canada's food aid to the poorest classes.** It can be assumed that the proportion of Canadian food aid that was going into the Relief and Food for Work elements of the ration system was in roughly the same proportion as the allocation of all food in the system. We can see from Table 3.6 that it averaged less than 15 per cent between 1975 and 1980. It was in fact less than half this when Mr. Gerin-Lajoie made his report to Secretary of State for External Affairs.

*The report appears to imply that most food does reach the poor and that only a part is diverted. In fact the reverse is true. In 1975 when this report was written there was no Food for Work Programme and what food was targeted at the poor through Modified Rationing and Relief amounted to about 28 per cent of the total available. We have seen from the findings in the World Bank review of the Food Distribution System the amount that actually reached the poor was very meager indeed.

**On the basis of the writer's personal experience little had been done by 1982 to ensure that increasing amounts of Canadian food aid were targeted at the poorer groups in society. In 1982 less than 15 percent was earmarked for FFW and VGF programmes.

It is fair then to conclude that the attitude of indifference that donors have shown towards the use of food aid has helped to contribute to the lack of impetus that the Government has shown in trying to devise a means of reducing the impact of free, or almost free, food aid on the incentive to produce more. It has then been perfectly natural and indeed logical for the Government to continue with a system which, with the limited resources that they have access to, suits their short term needs.

During the latter half of the 1970s the World Bank carried out a complete review of the policies in the food sector and the allocation of food in 1979. A part of their findings follows:

The public food distribution system is not primarily designed to reach the poor. . . . That the rural poor are not the target of the present distribution system is clear from the fact that the average rural resident received perhaps 28 pounds of food-grains per year through the various forms of public distribution, including Food for Work, [emphasis added] compared with averages of about 212 pounds per year for each resident of a statutory rationing area, and 321 pounds for each adult statutory rationing card-holder. If complaints of villages about failure to receive Modified Ration Grain allotted to their Union Parishads are true, the actual per capita benefit to the rural poor is even less. It is likely that the present rationing system is also increasingly failing to reach the urban poor.¹⁰⁵

Ehrhardt concludes, that this underlines the continuing preoccupation of the Government with maintaining stability in the urban areas, and within the police and military using food aid as a form of remuneration.¹⁰⁶ It also eases the Government's requirement for increased domestic resource mobilisation and defers the need for increases in civil servants' emoluments.

The Bangladesh Rural Advancement Committee, in their research on the power structure of the rural areas in 1979, examined the use to which food provided for the Food for Work programme was put, since it is an important resource in the village. In twenty projects examined, only 23.9 per cent of the food had actually been distributed.¹⁰⁷ The remainder had disappeared.¹⁰⁸ Out of the twenty projects three had been sanctioned twice under different names. The value of the food, in this case some taka 139,200 (US\$ 9144 at 15.2228¹⁰⁹, the prevailing rate of exchange) had gone to the chairman and the members of the Upazila Parishad (sub-district council).¹¹⁰ This represents a large resource in a poor country such as Bangladesh where the per capita income is about \$US 120 per annum.

A report commissioned by USAID concluded that less than 70 per cent of the wheat withdrawn for Food for Work found its way to the labourers.¹¹¹ In an

accompanying case study the report found falsification of records and reports of bribery.¹¹² It was also calculated that if the actual figures in the records had been used as the basis of payment, the number of days worked was only 54 per cent of the number for which they were reimbursed.¹¹³ Furthermore, "even with honest measurements by CARE [the monitoring agency] engineers the level of misappropriation can be well over 30% due to inaccuracies in the pre- and post-work measurement and underpayment of laborers".

The Modified Rationing, we recall, was designed to be made available to the poorest elements of the society.¹¹⁴ A spot check of one district committee member, who had been allocated 176 maunds (6.5 long tons) of wheat and 332 maunds (12.2 long tons) of rice, showed that only 50 maunds (1.8 long tons) of each had been distributed, mostly to his family and friends. The balance had been sold on the black market.¹¹⁵

The pattern of misuse of food is not unusual. These examples demonstrate that the "appropriation" of resources even at the lower levels of the society is a continuing problem. The attitude of the Government is aptly expressed in the following from the 1979/80 Memorandum for the Bangladesh Aid Group:

Public distribution now serves about 20 per cent of the total population. About 4 million people are continuously served under statutory rationing, while another 15 million get the benefit of modified rationing. It handles an average of 2 million tons of foodgrains mobilised from import and local procurement. Although the system has faced severe criticism in recent years, it played an essential role in procurement and distribution of foodgrains and other items in support of government stabilization programme. It maintained a steady supply of food grains for the fixed income groups [emphasis added] in the urban areas as well as for the subsistence farmers and landless workers in the rural areas.¹¹⁶

We recall, however, the estimates by the World Bank in their review quoted above, the allocation, on a per capita basis, to the rural areas was of the order of one tenth that to the urban areas. We see that the Government has concentrated on aid to those who have fixed incomes, rather than those living at subsistence level in the rural areas. The Food distribution system has favoured the relatively well off at the expense of the poor.

TABLE 3.7
Selected Market and Food Distribution System Retail Food Prices
(1973 to 1984)
(in taka per maund)

	Rtn Price ^A Rice	Mkt. Price ^B Rice	Subsidy as a Percentage	Rtn Price ^A Wheat	Mkt Price ^C Wheat	Subsidy as a Percentage
July 1, 1973	38.82	84.73	54.2%	28.00	..	..
May 27, 1974	58.00	129.74	55.3	48.00	95.67	49.8%
Dec. 20, 1975	68.00	105.83	35.7	53.20	55.63	4.4
Feb. 7, 1976	87.00	112.84	22.9	60.00	73.56	18.4
Dec. 31, 1977	97.00	98.05	1.1	77.00	80.21	4.0
May 19, 1979	117.00	183.22	36.1	87.00	93.07	6.5
May 3, 1980	137.00	190.35	28.0	107.00	113.00	5.3
Nov. 13, 1980	136.00	159.51	14.7	106.00	112.02	5.5
Apr. 11, 1981	151.20	190.33	20.6	112.00	105.77	5.9
Dec 12, 1981	171.00	205.00	16.6	120.00	126.00	4.8
July 3, 1982	191.00	224.10	14.8	130.00	157.00	17.2
Jan 3, 1983	209.00	238.00	12.2	139.00	176.00	21.0
Dec. 31, 1984	262.00	..	..	167.00	..	..
Dec. 1, 1985 ^C	275.00			181.00		
June 15, 1986 ^C	289.00			192.00		

Source: ^AWorld Bank, *Bangladesh: Economic and Social Development Prospects*, Report No. 5409, Vol. IV: Statistical Appendix, April 12, 1985, table 10.17, p. 150. ^B*Ibid.*, table 9.7, p. 119. ^C*Ibid.*, table 9.8, p. 120.

^CWorld Bank, *Bangladesh: Promoting Higher Growth and Human Development* 2 vols, March 10, 1987, Report No. 6616-BD, Vol. II: Statistical Appendix table 6.9, p. 40.

The system has not changed markedly under President Ershad in this latter period, the first half of the 1980s, except that the ration price has risen until it has at times equalled the market price.* One final note is that there is evidence that Bangladesh actually exports wheat despite the fact that this is in violation of both the spirit and letter of their agreements with major donors such as Canada and the United States.**

*At a farewell dinner for the departing Canadian High Commissioner in August 1985 it was suggested by a senior Government official that, in the light of the withdrawal of tax measures proposed in the budget a month earlier which were threatening to hold up access to an upper credit tranche from the IMF, he propose the abolition of the ration system to the President on his farewell call. The rationale was that at the time the ration price was slightly above the market price. It was, therefore, the ideal time to remove it without people's incomes being threatened. The move would, in all likelihood, have satisfied both the World Bank and the IMF Both had long recommended that the price be raised or, better still, that the whole system, with the exception of Food for Work and Vulnerable Group Feeding, be abolished. At the time agreement for a forthcoming World Bank Import Credit was contingent upon agreement with the IMF. This, in turn, depended upon certain tax measures being implemented, but these had been cancelled by the President. They consisted of a proposal to tax interest earned on bank accounts. Interestingly, opposition came not from the business sector, but from civil servants, presumably because some of them would have been hard put to explain their large bank balances.

The suggestion was made and the President was not amused. He made it clear that the ration system was a domestic issue beyond the purview of the High Commissioner. What is interesting about this incident is that the President could afford to ignore the suggestion of the third largest bilateral donor, and second largest bilateral food donor, not because he knew that it was not an official condition that Canada was considering attaching to its commitment of food aid, but because he was well aware that the provision of food aid from the food surplus countries is almost as much a need of the donor as it is of the recipient. Canada's protestations that it does not have food surpluses, but rather the bureaucratic euphemism for surplus, "carryover", do not carry much weight with those who understand the system.

**The writer stumbled on this allegation in conversation with a Canadian businessman, who wishes to remain anonymous, who has had dealings both in Bangladesh and Sri Lanka. During a trip to Sri Lanka he was in attendance when shipping papers, including certificates of origin, were produced for some wheat being imported. The papers showed that the wheat was of American origin and had been shipped from Bangladesh. The mistake was noticed immediately and the papers returned and replaced with the "correct" set. The revelation of such a diversion of food could presumably jeopardise the food aid programme if it were to be made public.

If we have dwelt upon the Food Distribution System at some length it is because it is the largest transfer of homogeneous resources that takes place between the donors and a single ministry. The composition of the aid most clearly indicates how donor interests dominate in the form of aid supplied and how the recipient government adapts to use the resources available. Its potential impact on the largest sector, agriculture, is also substantial as we shall see.

In conclusion we see that as in the "dependence paradigm" the Government has "appropriated" most of this resource to meet its own short term political ends. A portion has also been "appropriated" from that destined for the neediest by unscrupulous traders. Only a small proportion actually reaches the poor for whom it was ostensibly intended. It has not been phased down to a system designed to provide a strategic reserve for times of emergency which could also direct resources toward the most impoverished in the society as Faaland and Parkinson suggested it should. It has become rather a broad form of patronage provided to the privileged. Thus a large portion of the aid provided never reaches those for whom it intended. But this situation appears to suit both the donor and the recipient.

We find, then, in the Food Distribution System evidence of the following:

- Widespread misuse of food, given ostensibly to help the poorest, both by the Government to meet patronage obligations and by individuals in positions of trust within the system.
- The use of food as a source of revenue for Government to meet budgetary needs;
- Loose administrative controls to prevent the misuse of the resource.

We find in addition no sign or intent that the Government is likely to disassemble the system.

Agriculture

There are three principal issues in the agriculture sector. The first is that food aid has depressed the price leading to a disincentive to increased production. The second is that institutional development has been neglected and hence has lagged behind the technology available. It has not played a proper role in assuring the delivery of improved technology to the smaller farmers. The third is that the introduction of

inappropriate capital intensive technology has allowed the relatively wealthy in the rural areas increasingly to dominate the sector.

The large food aid programme comprises one fifth of committed aid and more than 25 per cent of aid disbursed. It has been a prime contributor in discouraging farmers to produce more.

Urban Bangladesh, towns of over 5000 people, is estimated to contain only 7 to 8 million people. It is therefore apparent that rationed food literally blankets the economy and enables many, generally the middle class, to eat more than 15.5 ounces per day. This food, sold at less than prevailing market prices, sharply curtails the size of the grain market for domestic cultivators, thereby preventing their incomes from growing as rapidly as they might in the absence of such a system.¹¹⁷

Food aid, however continues to be one of the primary remedies recommended by the World Bank. This is not because it is feeding the destitute but, because it provides the Government with revenue which it would otherwise have to raise taxes or budgetary deficits. Stefan de Vylder identifies two major aspects to the effects of food aid on agricultural production, the "price effect" and "policy effect".

The effects of huge injections of foreign grain on food prices are bound to be negative, . . . the concomitant loss in domestic food production is extremely difficult to assess in quantitative terms, since no reliable estimates exist of the supply and demand elasticities of foodgrain in Bangladesh; all that can be said with certainty is that farmers do respond positively to price incentives and that the disincentive effects of low food prices are stronger in the long run than in the short run.¹¹⁸

The "policy effect" is explained by McHenry and Bird:

A potentially more damaging aspect of Bangladesh's dependence on revenues generated through the ration system is the nearly pervasive relief mentality. Bangladeshi officials are convinced that the international donors will not allow them to starve. Since it is much easier to order a shipment of food through the embassy in Washington than to spend the time and money on a domestic procurement program, a definite complacency has settled on the bureaucracy. The technocrats . . . are resigned to continue reliance on American, Canadian, and Australian surplus food grains. One symptom of the relief mentality is a reluctance to invest too much of the country's limited resources away from the glamorous industrial sector into low profile agricultural projects.¹¹⁹

de Vylder substantiates:

Food aid has, in short enabled the government to neglect agriculture (and land reform), a policy which has 'forced' the government to rely more and more heavily on imported food. Impossible to quantify, the losses in domestic production due to these rather subtle mechanisms are likely to be very serious in the long run, when powerful vested interests fighting for the maintenance of the system have consolidated themselves. The more dependent a country is on imports of cheap food grain, the more costly it becomes for the government to achieve self-sufficiency in foodstuffs. Today it would be a budgetary disaster for the Government of Bangladesh if domestic production increased so much that foreign donors refused to supply food aid, [emphasis added] leaving the government to assume the full costs of sustaining the ration system.¹²⁰

This lack of investment has resulted in turn in weak rural institutions.¹²¹ The institutional base has also been neglected. Extension services were weak and the planning capability

of the Ministry of Agriculture is still undeveloped.* The provision of large amounts of food aid has hampered development. The concentration on imported related and capital intensive technology has resulted in inefficient and inequitable growth. Combined with this, the lack of concentration on the development of a strong institutional base have all conspired to make the country increasingly dependent on imported food to meet its domestic needs. Reliance on foreign aid has increased.

The Ministry of Agriculture itself has very limited planning capability and poor communications with the research institutions.¹²² The Bangladesh Agricultural Development Corporation (BADC) has suffered from frequent changes in leadership and conflicting policy direction from donors and Government. The Bangladesh Rural Development Board (BRDB) has a reputation for inefficiency stemming from lack of access to resources and frequent changes in leadership.¹²³

These problems in turn have led to the introduction of technology without appropriate safeguards and without an appreciation for the potential misuse of that technology. Investment in the agriculture has been largely concentrated on the provision of infrastructure such as deep and shallow tube-wells, low-lift pumps and water control structures. It has accounted for 46.8 per cent of investment in the agriculture sector under the Annual Development Plan.¹²⁴ Less than half of this has gone into rural development and about the same into crops or other sub-sectors (see Table 3.5).

The problem has three aspects. First, is a lack of commitment on the part of donors and the Government to ensure that a significant proportion of the aid provided by the donors go to the poorest. Second, is that without a strong rural institutional base designed to ensure that aid gets to where it was designed to, aid is "appropriated" by the upper class. Third, is that the depressed price of food has discouraged improved production.

Betsy Hartmann and James K. Boyce describe the situation in the village of Katni which formed part of the World Bank's North-West Tube-Well Project:

*Based on the writer's experience with the Ministry of Agriculture this is a fair assessment. Planning was almost non-existent although individuals within the system had thought, and written about the problems. Little of this was translated into concrete proposals. Part of the reason was the counter management attitude of the Planning Commission which instead of formulating the broad guidelines for growth and then prioritising the activities that should be made to take place, tended to become involved in the minutiae of project management. In the agriculture sector this was worse than in other areas and tended to revolve about various personalities.

On paper, the tubewell will be used by a farmers' cooperative formed especially for the purpose. . . . In reality, the tubewell in our village was the personal property of one man: Nafis, the biggest landlord in the area. The irrigation group, of which Nafis was supposedly the manager, was no more than a few signatures he had collected on a scrap of paper. . .

The tubewell was by far Nafis's greatest patronage plum. Although each tubewell cost the donors and the government about U.S.\$12,000, Nafis paid less than \$300 for his, mostly in bribes to local officials. The tubewell sits in the middle of a 30-acre tract of Nafis's best land. Since it will irrigate enough water to irrigate twice that area, Nafis says the smaller farmers who till adjacent plots will be able to use his water-at a price. But the hourly rate he intends to charge is so high that few of his neighbours are interested. As a result his tubewell will not be used to capacity.

At first we were surprised that the beneficiary of the World Bank's aid should be the richest man in our village, but on closer inspection we learned that this was not so strange. A foreign expert working on the project told us, "I no longer ask who is getting the well. I know what the answer will be, and I don't want to hear it. One hundred percent of these wells are going to the big boys. Each thana (county) is allotted a certain number of tubewells. First priority goes to those with political clout: the judges, the magistrates, the members of parliament, the union chairman. If there are any left over, the local authorities auction them off. The rich landlords compete, and whoever offers the biggest bribe gets the tubewell. Around here the going price is 3000 taka (less than \$200)."

"You see," he explained, "On paper, it's a different story. On paper, all the peasants know these tubewells are available. If they want to have one they form themselves into a democratic cooperative, draw up a proposal and submit it to the union council, which judges the application on its merits. The union council then passes the proposal to the Thana Irrigation Team, which again judges the case on its merits. If the proposal is accepted, the foreign consultants verify that the site is technically sound. So on paper it all sounds quite nice. . . . When the high-level officials fly in from Washington for a three-day visit to Dacca, they look at these papers. They don't know what is happening out there in the field, and no one is going to tell them."

An evaluation sponsored by the Swedish International Development Authority (SIDA), which helped finance the tubewell project, confirms the experience of our village was typical. . . . after examining 270 tubewells.¹²⁵

It is clear from this example that the aid funding, in this case from the World Bank, was improving the economic position of Nafis, one of the more privileged members of the community. In all fairness to the World Bank the project was planned before McNamara's efforts to place more emphasis on the social sectors and to focus on target populations. Nevertheless, it was a project that helped contribute to a more inequitable share of the resources.

Jansen, in Competition for Scarce Resources, describes much same process of increasing impoverishment through the misuse of resources provided with foreign aid. He describes the mechanisation used in the Bhaimara area, slightly to the north-west of Dhaka, where he was studying the community. He recounts how a particular individual was able to acquire a mechanised cultivator and to obtain Government loans to finance a deep tube-well in the name of a cooperative controlled by himself.¹²⁶ This technically fulfilled the requirement for the formation of a cooperative while allowing him to dominate it by being elected both President and Secretary. The tubewell was located on

his land and was under the care of his resident caretaker. Since he had paid bribes to have the tubewell allocated to his village and had incurred expenses in so doing he felt entitled to charge a price for the water equal to twenty-five percent of the crop harvested. Not all peasants in the command area were prepared to participate and even some who might have been willing, but with whom he had a hostile relationship, were excluded. Despite problems in the first two years these were partially overcome and by 1982, when Jansen revisited the area, he found that it irrigated some 30 acres against a theoretical command area of 50 acres.¹²⁷

This example, similar to that given by Hartmann and Boyce above, confirms de Vylder's contention that the concentration on infrastructure, even in the agriculture sector, has tended to dominate investment. Table 3.8 illustrates:

TABLE 3.8
Government Funding of Irrigation Schemes, 1973-77

Type of Irrigation	Allocation in FFYP	% of Land Made Irrigable	State Subsidy as a % of Total Costs
Large-scale projects	53%	5%	100
Deep tube-wells	31	21	67
Low lift pumps	14	24	44
Shallow tube-wells	2	2	34
Hand pumps ^A	Nil	3	29
Traditional methods (dhones, swing baskets, etc.)	Nil	45	Nil

Sources: Based on Agriculture Mission 1977, IBRD and S. Biggs, C. Edwards and J. Griffith, "Irrigation in Bangladesh", 1978 quoted in de Vylder, *Agriculture in Chains*, p. 79.

^AThe hand pump scheme was initiated after the writing of the Five Year Plan.

Thus, even within the irrigation sub-sector, the amount of investment in irrigation schemes and the amount of state subsidy have been almost directly proportional to the capital intensity. These types of investment have affected only a small proportion of the irrigable land. Jansen explains the capital bias:

Normally there is a great demand for deep tube-wells in an area. The people in Government at central and local levels are well aware of this situation, and exploit it to their advantage. It is not unusual that a large amount of bribes will have to be paid to them by the rich people who start the co-operative. . . . One important consequence of this way of acquiring a deep tube-well is that the linkages between urban and rural elites are strengthened, and the resources produced in the rural areas are transferred, in the form of bribes, to Government officials in the urban areas. The rich farmers who have had the expenses for the bribes inform the members of the co-operative of this, and demand compensation for providing the water to the others. A normal way to collect payment from the members is to demand 150 to 300 taka for irrigating one bigha of land or to ask for a certain percentage of the crop; 25% is common. In this way, the rich farmer(s) can more than recover their expenses, and the water from the deep tube-wells has become a major source of income. . . .

A patron-client type of relationship can often develop between the controllers and the users of the water, where the users not only pay an economic compensation for the use of the water, but also have to show loyalty in other fields, for instance, to give political support in village and Union affairs. The more support shown, the more certain the client can be to receive other favours, including water supply, access to fertilizers and pesticides; goods which for poor people can be obtained only on the black market at high prices. . .

The organizational implications of the use of the [hand] pump are very different. There is no need to form and maintain a cooperative group around a manual hand pump. If credit is provided, even the poorest landowner could become the owner of a hand pump. The pump offers a good return. Under normal price conditions, farmers using one hand pump to its capacity can regain their initial investment in one boro crop season. Rich farmers feel threatened when the poor farmers get hand pumps. The increased production which results from the additional winter crop is used to make the [small] farmers more self-sufficient and independent of the rich farmers. The rich farmers understand that as soon as the farmers become self-sufficient and do not have to take up loans to survive, they will lose the chance for buying up land from the poor peasant farmer. In several parts of Bangladesh where the hand pumps have been introduced, rich farmers have threatened poor farmers and refused them more loans if they start to use the hand pumps for irrigation. While deep tube-wells often function as a means for strengthening the patron-client relationship type of social organization in rural areas, the hand pumps can function as a means to break up this pattern.¹²⁸

Deep tube-wells are an imported item, either financed under projects, import credits or, less often, from free foreign exchange. Being in the agriculture sector they are an attractive investment for donors that often conform to their tying regulations. Hand pumps are a factor for social change but may disturb the status quo. Weiss and Jequire express a view fairly typical of foreign donors and planners:

Conventional gravity irrigation . . . does not work well in the humid tropics [*sic*] of Latin America or in Bangladesh. . . where landholdings are small. In the Punjab (India and Pakistan) the green revolution in a way perplexed planners because almost spontaneously tens of thousands of shallow wells were installed by private farmers in the space of a few years. These were mostly electric driven, low capacity centrifuge pumps, which in physical terms are far less efficient than large-capacity deep well turbine pumps, yet the former are clearly superior in economic and human terms [emphasis added].¹²⁹

What the World Bank might have learned from local farmers in the Punjab, where agricultural growth has been both impressive and equitable,¹³⁰ they did not apply in Bangladesh. In Bangladesh the World Bank devoted a large part of its agricultural investment to capital intensive deep tube-wells of the type used by Nafis in our earlier example. Capital intensive tubewells may have been more efficient in theoretical terms, but they were unsuited to the socio-economic situation prevalent in Bangladesh. The result is that they tend to subjugate the poor even further.

Even the World Bank concedes that the results were less than perfect:

However, 1978/79, irrigation equipment was typically being utilized at only 60% of its capacity.¹/ Deep tubewells were generally sited on the lands of the prominent farmers who had taken the initiative to form irrigation groups. The deep tubewells came to be regarded as the personal property of the farmers whose land they were sited and water use systems were not developed to cover the entire area, so that the needs of a large number of small farmers were denied.

1/Bangladesh: Current Economic Position and Short Term Outlook; IBRD March 21, 1979. Also see an Evaluation of Deep Tubewell Project in North West, BIDS, March 1980.

A survey of the Northwest Deep Tubewell Project from 1978/79 to 1982/83 carried out for the Swedish International Development Authority in which the capital and import biases that characterise foreign aid are clearly evident. There were found to be companies capable of producing the pumps for both shallow and deep tube-wells,¹³¹ albeit not in sufficient quantities with existing capacity. There were, however, an excessive number of different engines being imported for the shallow tube-wells without a corresponding quantity of spares and without there being adequate maintenance facilities available. Furthermore, this was a deliberate policy on the part of some importers to maintain the demand for new pumps.¹³²

The conclusions were summed up by Johan Holmberg in the foreword referring to the report:

Its overall findings however, are far from surprising to anyone involved in rural development issues on the whole and support the findings of the early SIDA evaluation. Development resources are being captured and monopolised by the rural rich, often making life even more miserable for the poor. Effects on employment are modest, even the impact on growth is far from convincing.¹³³

Thus, the situation does not appear to have changed much in the middle 1980s with respect to the major donors. Some of the smaller donors such as UNICEF are not driven to the same extent by the need to disburse. They may also have adequate staff in the field.¹³⁴ As a result they have gained a growing appreciation of the non-capital intensive approach and have introduced handpumps to the area.¹³⁵ The Government has a preoccupation with large prestigious infrastructure projects such as the Brahmaputra Barrage. The feasibility study it requested for a huge barrage project from Prime Minister Trudeau when he visited Bangladesh in November 1983 is typical. Its estimated cost was more than a third of the country's GNP. Furthermore, the first benefits would not have been derived until well into the next century. Yet it would have required that virtually all investment be put into this one project. It preoccupied the Ministry of Irrigation for more than a year, diverting their attention from such mundane but productive things as hand pumps.*

The World Bank, despite its own assessment of the problems associated with deep tube-wells, signed another deep tubewell project on July 26, 1982 for some SDR

*This is based on the writer's experience as Head of Aid during the period referred to when he carried out most negotiations with the Government.

60.5 million.¹³⁶ The Asian Development Bank, which has almost no project supervisory staff, signed a deep tube well project on April 20, 1983 for US\$56.5 million.¹³⁷ Regardless of whether the lessons are taught and recorded, they still have not been learned.

The selection of technology is frequently a function of the financing available.¹³⁸ We have seen in the examples above the effects of technology being introduced without the appropriate institutional structure to ensure its optimal use. The World Bank and the Asian Development Bank operate without the tying constraint that binds the bilateral donors. Hence they ought to be leaders in the selection of optimal technology. Regrettably they do not appear to have learned by their own mistakes.

In the agriculture sector we see the following:

- A limited market due to the dominance of urban markets by food aid,
- A lack of institutional development,
- A capital intensive approach,
- The large scale "appropriation" of the capital intensive resources that are provided,
- Some effort, but little success at improving rural institutions to ensure that the best possible use is made of the resources available,
- No real sustained effort at really fulfilling the agricultural potential of the country.

Economic Growth

Economic growth averaged 5 per cent from 1973 to 1975.¹³⁹ Agriculture grew at 4.6 per cent.¹⁴⁰ This was overshadowed by spectacular growth in the industrial sector of 27.3 per cent in large-scale industries, only 7 per cent of which was in the area of small scale and cottage industries. This reflects the capital bias that was prevalent in the economy from even before independence.¹⁴¹ The trade sector grew some 14.7 per cent¹⁴² again reflecting the propensity to engage in trade. This again reflects the donor preference for capital intensive technology and an import oriented approach. During the period over half of the loan agreements signed by the Asian Development Bank were concerned with the industrial sector.¹⁴³ The World Bank invested rather less in the industrial sector, but concentrated on investment in the irrigation sector. It also provided commodity loans of US\$225 million, out of a total of US\$585 million on programme aid

and US\$36 million on industrial investment.¹⁴⁴ This no doubt contributed to the growth of the trade sector.

Table 3.5 shows that the trend has clearly been for the government to favour energy and industry at the expense of agriculture in terms of the proportion of investment allocated to various sectors. Most investments are concentrated in capital projects that are dependent on imports: irrigation equipment, 13.4 per cent; industry, 12.6 per cent; power and natural resources, 17.9 per cent; and transport* and communications, 17.6 per cent, totaling 61.2 per cent per cent of all investment. This is magnified when one takes into consideration the relative share of GDP accounted for by agriculture, some 48.6 per cent of GDP in 1974/75, while energy accounts for only some 0.15 per cent.¹⁴⁵ This bias is due to the donor propensity for high technology, large scale, import oriented projects, but an added benefit for the recipient, is that there are relatively more opportunities to "appropriate" aid from large infrastructural project, such as those in the energy, transportation and industrial sectors. These are not necessarily derived from corruption, but may also come from commissions paid to agents, visits overseas and training associated with such technology. There is also greater opportunity to bank foreign exchange overseas by under- or over-invoicing or simply by charging generous profit margins.

Agriculture on the other hand is a difficult sector in which to programme. The inputs are technical knowledge, modern inputs such as fertiliser and high yielding varieties, and credit. The last presents some opportunities for misuse. They are not, however, on the same scale as those available through industrial credit schemes simply because most farmers or sharecroppers operate on a very small scale.

The average growth rate during the latter half of the 1970s continued at a respectable 4.7 per cent between 1974/75 and 1979/80.¹⁴⁶ Large scale industry slowed to a slightly above average 6.2 per cent,¹⁴⁷ still more than double agriculture's modest 3.0 per cent. Small scale industry, however, grew at 21.2 per cent. Construction grew at 6.5 per cent. Transport grew at 5.5 per cent and banking and insurance at 20.0 per cent.¹⁴⁸ During this period growth was healthy, but again largely confined to the

*Of all the sectors transport has potentially the largest local cost component in construction of local roads. Most transport investment has been concentrated on the railways and the modern part of the inland water transport sector, both of which are capital intensive and largely dependent on imports.

modern sector. Tendler contends that the propensity to opt for larger projects or larger foreign exchange components of large multi-donor projects is related to a bureaucratic phenomenon that favours large projects over small. This is because, in the view of bureaucrats, the efficiency of implementation is measured in the "input of staff work, measured in time, to transfer a given amount. Since the larger project requires less effort per unit of value than the smaller one' there is a tendency to opt for the larger project."¹⁴⁹

Average growth dropped to 3.8 per cent for the 1980 to 1985 period.¹⁵⁰ This was in part a reflection of the world economic slump of the period. Agriculture continued to lag at 2.7 per cent,¹⁵¹ about the same rate as population growth. Industry grew at 5.4 per cent and the service sector grew at 4.7 per cent.¹⁵²

Thus, we see that without a real effort in agriculture by the Government, the modern sector has continued to gain ground and dominate the growth pattern of the country. It has been largely financed from outside the domestic economy and not from agriculture, potentially the lead sector. Employment problems have continued to grow, particularly as there are few employment prospects in traditional agriculture resulting in increased urban migration. The investment in agriculture has not reached the poor. It is not surprising then that, with the capital bias and growth in the modern sector dominating, the welfare of the traditional sector should suffer.

There is one anomaly that stands out. The average production of wheat rose from 109 thousand tons during the first five year period to an average of 1166 for the last five year period, an increase of tenfold over the decade. Yet, interestingly, the investment in wheat has been modest by comparison with the other areas. Thus, we find as predicted:

- Growth has been acceptable, but concentrated in the modern sector,
- The traditional sectors have been largely ignored.

*The writer's own experience in Bangladesh bears this out. Fundamentally good projects were often discouraged because they were too small to have any effect on the flow of resources being transferred regardless of their intrinsic value as development projects. Specialist technical teams were regularly instructed either to discourage small projects or to package them in such a way that they could be approved as a part of a bigger project. The reason for this was that it was beyond the capacity of either the limited field staff of the desk staff in Ottawa to prepare the appropriate documentation for approval. While CIDA did move in the direction of delegation more financial authority to Country Programme Directors the additional resources were not made available.

TABLE 3.9
Gross Domestic Product
(in constant 1972/73 prices in millions of taka)

	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85
Agriculture	26,100	28,827	28,537	31,865	30,903	34,019	33,872	34,050	34,910	35,230	36,850	37,440	37,940
Crops	19,761	22,352	22,212	25,477	24,461	26,450	26,941	26,950	27,630	27,440	28,790	29,120	29,340
Forestry	1,240	1,330	1,134	1,183	1,183	1,490	1,520	1,550	1,700	1,880	1,920	2,100	2,290
Livestock	2,230	2,267	2,230	2,236	2,380	3,166	3,308	3,447	3,480	3,690	3,770	3,840	3,900
Fisheries	2,869	2,878	2,888	2,879	2,879	2,913	2,103	2,103	2,100	2,220	2,370	2,390	2,410
Industry	4,555	5,212	7,410	7,755	8,338	9,014	9,510	9,880	10,700	11,020	11,090	12,010	12,900
Mining and Manufacturing	2,896	3,404	5,482	5,878	6,118	6,642	6,939	7,081	7,600	7,720	7,600	7,880	8,170
-Large and Medium Scale	(1,871)	(2,226)	(3,032)	(3,259)	(3,382)	(3,743)	(3,968)	(3,976)	(4,390)	(4,430)	(4,210)	(4,390)	(4,580)
-Small Scale	(1,025)	(1,178)	(2,450)	(2,619)	(2,736)	(2,899)	(2,971)	(3,105)	(3,210)	(3,300)	(3,390)	(3,490)	(3,590)
Construction	1,529	1,713	1,833	1,742	2,057	2,188	2,387	2,604	2,850	3,000	3,040	3,650	4,180
Electricity, Gas and Water	130	95	86	135	163	184	184	195	250	300	450	490	550
Services	14,457	16,530	16,344	19,066	20,228	20,949	23,384	25,102	26,040	25,980	26,890	28,550	30,160
Transport and Communications	3,366	3,528	3,617	3,792	4,095	4,258	4,612	4,995	4,850	4,850	5,230	5,340	5,460
Trade	3,829	5,142	5,814	7,653	7,907	8,008	9,373	10,048	6,870	6,270	6,430	6,800	7,080
Banking and Insurance	559	469	450	465	475	506	545	619	1,390	1,290	1,220	1,290	1,360
Housing	2,454	2,417	2,383	2,529	2,585	2,740	3,082	3,220	5,300	5,420	5,550	5,680	5,810
Other Services	3,300	3,678	2,841	3,281	3,577	3,756	3,994	4,226	4,910	5,230	5,570	5,940	6,410
Public Administration	949	1,296	1,239	1,346	1,589	1,681	1,778	1,954	2,730	2,910	2,900	3,500	4,040
GDP at Market Prices	45,122	50,569	52,282	58,686	59,469	63,982	66,766	69,032	71,640	72,230	74,840	78,000	81,000
Net Indirect Taxes	1,061	1,496	747	3,314	3,232	3,396	3,756	4,245	4,130	3,770	4,020	4,200	4,390
GDP at Factor Cost	44,051	49,073	51,535	55,374	56,237	60,586	63,010	64,787	67,510	68,460	70,820	73,800	76,610

Sources: 1972/73 to 1979/80 World Bank, Bangladesh: Current Economic Situation and Review of the Second Plan, Vol. I: Main Report and Statistical Appendix, February 23, 1981, table 2.2, p. 98. 1980/81 to 1984/85 World Bank, Bangladesh: Recent Economic Developments and Medium Term Prospects, Vol. II: Statistical Appendix, March 17, 1986, table 2.4, p. 10.

Notes: Data for 1972/73 through 1979/80 are not directly comparable with those for subsequent years as wages and salaries paid from the Annual Development Programme were not included in estimates of sectoral value added prior to 1980/81. Our estimate is that this may under estimate values by about 1.7 per cent.

Business and Industry

Most of both the domestic investment and the investment provided through foreign aid that has taken place in Bangladesh since independence has been for the procurement of imported goods rather than their manufacture. There are several reasons for this.

The end of the War of Liberation saw the flight of the entrepreneurial class which had been predominantly West Pakistani.¹⁵³ Bangladesh had already suffered from the loss of much of the Hindu entrepreneurial class during the partition of 1947. This loss, repeated in less than a generation, set the economy back again. The newly emergent country had few resources remaining to draw upon in the way of educated, experienced businessmen. It was thus left to the Government to find a means to keep the abandoned industries operating while there was an acute lack of the skilled personnel necessary required to manage the industrial sector efficiently.

With the already extremely limited manufacturing capability of the country in a shambles, there were quick profits to be made as indentors (importers) struggled to arrange the importation of foreign financed commodities and goods. There was a far higher return to be made on capital invested in the importation of goods¹⁵⁴ than there was from investing in production, processing or manufacturing facilities where returns were much less certain and much slower. Furthermore, there was more likelihood of competing with established and more efficient foreign suppliers.^{155*} In fact, representatives of manufacturers supplying under commodity programmes needed to make only very small investment by comparison with the size of the transaction being made and the profits earned.

During the pre-war period the entrepreneurial class of West Pakistan had controlled 47 per cent of all fixed assets in private hands and 72 per cent of the private industrial assets.¹⁵⁶ The result at independence was that business houses with their

*There are exceptions to this and in recent years both the pharmaceutical industry which is protected from competition from imports by law and the garment industry where Bangladesh has, for the moment, good comparative advantage have grown and to some extent prospered. It should be noted, however, that in the case of the former there was considerable opposition from at least one donor, the USA, who threatened to cut its foreign aid programme if exceptions were not made to accommodate US manufacturers and that the ban is still widely transgressed by donors in the health sector. In the case of the garment industry, which is labour intensive rather than capital intensive, Bangladesh was fortunate to benefit from the fact that some traditional suppliers were on the point of exceeding their quotas while Bangladesh had not yet been subject to a quota imposed under the Multi-Fibre Agreement and that the rise in communal violence in neighbouring Sri Lanka left an additional gap in production to be filled.

headquarters in West Pakistan controlled 41 per cent of the fixed assets in the country. The remainder of the investment was in private, non-Bengali hands.¹⁵⁷ The loss of Bengalis in the senior echelons who had been killed during the War was serious.¹⁵⁸ Just as serious was the loss of personnel such as skilled workmen and shop floor management.¹⁵⁹ At the executive level there were fewer non-Bengalis in executive positions.¹⁶⁰ In the newly nationalised industries which had been abandoned, there were simply not sufficient qualified personnel to manage the enterprises.¹⁶¹ Sobhan and Ahmed argue that the result of this in most companies was to turn over effective responsibility to "a fluctuating coalition of union leaders, managers and nominated outsiders who then sold off inventories of finished goods to pay wages or for their own profit".¹⁶² Maniruzzaman on the other hand maintains that the administrators appointed by the Government were from the ranks of the Awami League supporters. They promptly sold off much of the machinery and raw materials across the border in India.¹⁶³ Regardless of who profited, productivity plummeted. The result during this first period is that the productivity of the industrial sector dropped and the country became more dependent on imports.

In reviewing the history of industrial growth over the first decade the Planning Commission concluded, in The Substantial New Plan for the 1980s, that the capacity utilisation of the industrial sector remained unsatisfactory due to several factors. There was limited availability of raw materials, labour unrest and a lack of a sustained supply of imported raw materials.¹⁶⁴ In the public sector particularly they faulted inept management, poor maintenance and lack of accountability as contributing causes.¹⁶⁵

In the jute processing industry, which dominated the industrial sector¹⁶⁶ the Government had, before independence, encouraged the growth of the industrial sector at the expense of the rural sector by paying a generous export bonus, for which the export of raw jute was not eligible.¹⁶⁷ This was done to encourage the development of processing in the country. The result of this, however, was a net transfer of resources from the rural areas to the urban areas. The price of jute was depressed,¹⁶⁸ another example of the urban bias that predominated. A factor that Abdullah identifies, is that several industries actually had negative social returns,¹⁶⁹ It has also be suggested that this led to an over-expansion of the jute-processing industry since the jute market was contracting under pressure from synthetic competitors. The combined share of both India

and Bangladesh grew from 8 per cent of the world market in 1955/56 to some 50 per cent in 1969/70 while the quantity of exports stagnated at the same level.¹⁷⁰

Sobhan asserts that 64 per cent of investment in Bangladesh is financed by foreign aid.¹⁷¹ Furthermore, the propensity of the trading classes is to opt for imported rather than domestically manufactured goods because of the relatively higher commissions to be made in importation.¹⁷² His calculation, using very conservative assumptions on the size of commission, works out at some US\$136 million between 1972 and 1980 on disbursed aid of some US\$5,500 million in disbursed aid. Since these calculations were made another US\$ 6,500 million have been disbursed up to June 30, 1985¹⁷³ which could, using Sobhan's assumptions, have resulted in a total of some US\$300 million from 1972 to 1985. The result has been the growth of a "black" economy dealing in luxury consumer goods which is quite incongruous in the world's second poorest country.¹⁷⁴ These calculations do not include the commissions made on the import of goods with legitimate foreign exchange or bought from remittances from foreign workers through the Wage Earner Scheme (WES).

Another common problem in Bangladesh is that of under-utilised productive capacity. While some sectors of the industrial sector are comparatively well utilised, there are areas where it is not.¹⁷⁵ The installed capacity available, were it to be fully utilised, could contribute far more to employment generation and economic growth of the country than it currently does. Not all under-utilisation can be laid to the fault of the donors and foreign aid. There is, however, little doubt that they share the blame in encouraging importation even where some production could be carried out locally. Their propensity to do this has been well documented by Tendler.¹⁷⁶

The under-utilisation of existing productive capacity in Bangladesh is apparent to the observer. Ole David Koht Norbye in the Bangladesh Country Study¹⁷⁷ gives numerous examples. The Bangladesh Machine Tool Factory by itself accounts for 5 per cent of the fixed assets of all industries in Bangladesh, but its output is negligible. The Diesel Engine Plant produces an engine which buyers find unsuitable. The manufacture of inefficient irrigation pumps is yet another example. The General Electric Manufacturing Plant in Chittagong produces transformers that are of Soviet design and are wasteful of costly materials.¹⁷⁸

The last example is particularly relevant given the great investment in electrical energy production and distribution. Donors have provided imported transformers rather than assistance to the plant for the manufacture of the required equipment. Granted, the latter would be a more time consuming and complicated process, but the result would be better utilisation of existing capacity. The longer run implications of such approaches to providing aid are that Bangladesh's existing capital investment remains under-utilised with an opportunity cost attached. Little improvement has been brought about in the managerial capacity of the sector, and little employment has been created. The donors are not alone in their omission of this factor. The longer time horizon involved is unlikely to appeal to the Ministry of Energy whose immediate concerns do not include the improvement in productivity in the industrial sector. Finally, the influential traders who stand to benefit from the commissions paid for the importation of foreign goods undoubtedly have had an influence on the Government decision-makers.¹⁷⁹

Tendler,¹⁸⁰ in her study of aid in Latin America, explains the general tendency of USAID and other donors to favour larger projects over smaller ones and to favour large foreign exchange components of large multi-donor projects when participating in them.¹⁸¹ One of the reasons for this is the tying of aid funds to the procurement of equipment in the donor's country. Donor countries persist in tying, despite considerable evidence that it adds both to the cost and complexity of projects, and does not bring tangible economic benefits to the donor country. Most donors have tying requirements.

In considering the logic of this attitude we must understand that bureaucrats engaged in the administration of foreign aid are not rewarded on the basis of the success of a project whose end they will probably never see. As Sobhan suggests, however, they are sometimes rewarded for allocating the benefits of the project.¹⁸² There is no measure of the profitability resulting from these benefits as there would be in the private sector. Rather, recognition is on the basis of the amount of money spent. Even where ex-post facto project evaluations are carried out these tend to be narrow in scope. Payer argues that the implementation and evaluation stages of a typical World Bank Project are concerned with seeing whether the project met its goals, goals that were set by the appraisal team at the time of project identification and approval. They are not concerned with whether those goals were relevant to the problem.¹⁸³ The aid bureaucrat is thus

judged on his performance for the work he has completed, i.e., spending money. The result of this in Bangladesh is that most large donors have avoided small projects that do not disburse funds on a regular basis. Small projects are usually the type of project that are most likely to benefit the small farmer or the landless rural dweller.

Another aspect of the business sector has been the effect of donors in preserving markets for the subsidiaries of their domestic industries. This is done even in the face of evidence that the importation of some products may be wasteful, or even be detrimental to the improvement of the general development of the country. The health sector serves as an example. In their evaluation of the Norwegian commodities programme the evaluators describe how the donors took a very strong stand when the Bangladesh Government tried to restrict importation of drugs in an effort to develop the domestic production of a limited line of basic drugs more appropriate to Bangladesh's basic health needs:

Before 1982, drug laws in Bangladesh provided very little control of the pharmaceutical supply system. By early 1982, there were 4340 registered products of which 2600 were local and 1740 were foreign brands. A large number of these products were non-essential, engaging more than 50 per cent of local production. Promotional activities of private manufacturers had created a demand for many non-essential drugs that had very little or no relevance to real health needs. Consumers were persuaded to undertake self-medication with non-essential drugs. . . .

. . . It was this situation which provided the background for the World Health organization to address the drug policies and practices pursued in third world countries. WHO's Action Programme on Essential Drugs was part of WHO's wider aim and programme "Health for All by the Year 2000".

While some of the guidelines [in Bangladesh] are based upon sound pharmaceutical and therapeutic premises, some are purely of economic nature. For example, foreign companies are not allowed to manufacture simple products such as antacids . . . and oral vitamin preparations.

The drug market there [in Bangladesh] is worth only US\$ 80 million and any multinational could withdraw from Bangladesh with little effects on its international sales figures. What does concern the multinationals is the fear that WHO recommendations might be adopted by a large number of Third World countries and even followed by the industrialized countries. . . . the multinationals are concerned about the example Bangladesh could set to many Third World countries. The strong and fierce opposition to the Drug Policy must be understood in this perspective. Prior to the adoption of the new drug policy, biased information and propaganda put out in Bangladesh by the multinational companies suggested that the companies would leave Bangladesh if the policy were to be implemented. The ambassadors from several large Western countries contacted the President and expressed their concern about the new policy. The West German Ambassador argued the Policy deterred foreign companies from investing.¹⁸⁴

In the Norwegian drug programme it was the local agent of a Norwegian pharmaceutical company already doing business there who drew up the list of the country's drug requirements from Norway.¹⁸⁵ Many of them, however, were on the list of prohibited imports¹⁸⁶ because they were already being manufactured there. The

importation of Norwegian drugs led to the closing of one manufacturing plant making the raw materials in June 1985. The imported medicines cost the Ministry of Health some 14 per cent more than the domestic product.¹⁸⁷

Much the same kind of issue was met in the area of the importation of hand sprayers for the application of insecticide on the jute crop. The case was not as clear cut as that of the pharmaceuticals because demand may have exceeded supply.¹⁸⁸ Nevertheless, it was claimed that unsold stocks of the domestically produced product were available locally at the same time as there was effort on the part of a local company, BEXIMCO (one of the larger trading houses in Dhaka) to import the banned items under the Norwegian commodity programme.¹⁸⁹

We see, therefore, there has been a propensity for traders to engage in trade of imports rather than the sale of local manufactured goods because of higher returns.¹⁹⁰ It follows therefore, that private investment capital will also gravitate to trading rather than manufacturing. The returns are higher and there are opportunities to divert at least part of the profits to safer havens abroad. Conventional theory predicted there would be an effort to export. There have been two such successes: the frogs' legs and shrimp, and the garment trade. Both have done well and were the result of entrepreneurs grasping market opportunities. Both, however, are limited when compared to the range for commissions that Sobhan cites, some US\$136 million from 1972 to 1980.¹⁹¹ By comparison these commissions would equal total shrimp and frogs' legs exports for two years (1982/83 and 1983/84 equaled US\$72 million and US\$76 million respectively).¹⁹² Alternately they equal more than one year of garment exports (US\$116 million in 1983/84).¹⁹³ In 1984/85 aid totalled some US\$1,267 million.¹⁹⁴

In sum, have seen that:

- Exports of new products have grown, but by comparison with aid they are still small;
- Industries tend to be capital intensive and there is a general neglect of a labour intensive approach;
- It is difficult to ascertain whether there has been large scale export of capital.

Equity: The Growth of the Upper Classes

Corruption was pervasive during Mujib's time even extending to the members of his own family.¹⁹⁵ The Awami League, despite its socialist philosophy, represented the landowning classes. They were relatively poor perhaps by the standards of wealthier countries, but close to the top of the social structure in Bangladesh. The description of Mujib's use of patronage and nepotism is well documented by Franda. He describes the growth of popular feeling against such misuse of power.¹⁹⁶ With the overwhelming majority that Mujib commanded in Parliament there was little that the opposition could do. His power was obtained through election rigging, intimidation and violence.¹⁹⁷ He set the stage and provided the example for the society and the two dominant leaders who were to follow, Presidents Zia and Ershad. Each of the latter was to take power ostensibly to combat corruption only to fall prey to it. Zia did through his tolerance of corruption to achieve political ends. Ershad, it is alleged,¹⁹⁸ has tolerated dishonest practices to benefit members of his family.

Thus, dating from the early days of the country's independence, there has been real growth in the small but increasingly influential upper classes. This growth of the upper classes is at least partially attributable directly to or indirectly to the growth of foreign aid.

The burgeoning urban elite of Bangladesh owes its position almost entirely to aid; the creation of luxurious residential and shopping areas in Dhaka is the one tangible effect of all the aid money that has been poured into Bangladesh since its independence from Pakistan.¹⁹⁹

Hayter is exaggerating somewhat in the above quote. There are no luxurious shopping areas, outside of a few small shops in the two international class hotels. There is no question, however, that the aid community is the raison d'être for the majority of the construction in the suburbs of Banani and Gulshan Model Town, and more recently in neighbouring Baridhara. Nor is this the only tangible effect of all the aid money spent in the country. Dhaka is a city in which it is obvious, even to the casual observer, that attention is paid to maintenance and beautification. This was so particularly at the time of the Islamic Foreign Ministers Conference in 1984, and the visits of Queen Elizabeth II, President Kaunda of Zambia and Prime Minister Trudeau of Canada in November

*307 of 315 according to Franda, p. 54, or 305 according to O'Donnell, p. 194.

1983. The same cannot be said of smaller centres in the rural areas where such visitors rarely venture except on carefully orchestrated visits. The ability of the Government to allocate monies to such activities is possible because the donors provide some 40 per cent of the country's total budgetary requirements through the sale of food aid and commodities.

Farouk estimates that about 250,000 families form the upper class in Bangladesh. They are closely knit and live in relative comfort amongst the poverty that predominates. They also form an influential class with the bureaucratic and the political elite.²⁰⁰ They have used their credit, land and their official positions to acquire wealth. He describes them:

The upper class included men whose corrupt careers brought success stories. Many had little reputation of honesty. There were officers screened out for corruption, yet living in society as respected and well-to-do citizens. Educationists were convicted and sentenced for mismanagement. Politicians had frequently become rich by abuse of their power. Many of the criminals in the city appeared to be the children of the newly rich families^{1, 201}

1. C.f., "The Police Commissioner of Dacca remarked that it is easy to arrest the old criminals but not so with the new criminals. Majority of the latter come from the educated and well-to-do class". The Ittefaq, Dacca, (Post-Editorial), July, 7, 1980. "Children of the upper class families are becoming wayward, teasing girls and doing other crimes in the city, because their families had become rich quickly by unfair means." Daily Sangbad, Dacca (Post-Editorial), October 23, 1980.

The import business (indenting) which developed to fill the gap left by departing Pakistani entrepreneurs at the end of the War of Liberation has provided one such outlet for growth and easy profits. Since a large portion of imports are financed by donors, the upper class has a vested interest in the promotion of aid. Its growing influence has been focused on decision-makers in government so that there are strong forces opposed to the government's making any serious attempt at achieving a measure of self reliance.

Another area has been the provision of easy credit through the domestic financial institutions. For example between December 16, 1971 and June 1982, a period of almost eleven years, some 9,859 million taka (approximately \$500 million) has been invested in 1257 projects in the private sector. Sobhan and Mahmood estimate that this could well have benefited only about 1000 families²⁰² or an average of approximately US\$500 thousand per family. In a country where the average income is about US\$120 per annum this represents a definite bias towards the wealthier segments of society.

Koht Norbye suggests that the average income of the 50,000 wealthiest households in the country could be as high as one million taka a year. This would account for approximately 12.5 per cent of the national income.²⁰³ Certainly the statistical division of the population into quintiles or deciles in Table 4.1 understates the nature of the problem of the accumulation of wealth. Even Koht Norbye's estimate of 50,000 households is too generous. Sobhan and Mahmood are probably much closer with their estimate of 1000 families. Below this there is a segment comprising the rural elite and the urban middle class. It is doubtful, however, if even they would make up all of the top decile of the population where per capita income is still very low by world standards (see Table 4.3).

There are several possible answers to the question of why aid favours the wealthy. Donor agencies do not have the resources to ensure that development assistance is well administered. There is not, in most donor countries, a well informed constituency, or even a well informed legislature. The United States is the exception in this respect in that the Congress is concerned with the delivery and use of foreign aid. Thus, there is little pressure on most donor governments* to increase the effectiveness of the foreign aid relationship. In fact, for some donors to do so would undermine the patron-client relationship between the donor and the beneficiaries. These as we have seen are often the most privileged in the recipient country.

Dating from the early days of the country's independence there has been real growth in the small, but increasingly influential, middle class and upper class. The growth of this group is at least partially attributable, directly or indirectly, to the growth of foreign aid.

Much aid, such as food aid, and, to a lesser extent, commodity aid, may have been appropriate at the time of the reconstruction immediately following the War of Liberation when "quick fix" solutions were called for. This aid has become the panacea for all Bangladesh's ills because of the vested interests of the upper classes in perpetuating it for personal gain.

The existing policy framework from the time of independence has tended to neglect agriculture for the rewards of growth in the industrial sector. Most aid flows

*In most donor countries the administration of the aid programme is largely the responsibility of the executive branch of government.

have reinforced this strategy²⁰⁴ rather than changing it. The policy framework is reflected in the allocation of resources in the various Annual Development Plans in Table 3.4 and 3.5.

Thus, we see that "appropriation" of aid by the upper classes has reinforced a mix of aid that might have been beneficial in the immediate post-war period, but has instead become counterproductive to the goal of equitable development as needs changed. This has led to inequitable development reversing the trend that existed prior to the War of Liberation when conditions were improving for the poorest and remaining relatively static for the upper classes (see Table 4.4).

We see therefore that the middle and upper classes have improved their positions vis-a-vis the poorest and have grown significantly.

Foreign Aid

Foreign aid was welcomed almost from the beginning although there was selectivity and an overriding concern that the donors not distort the objectives of the new state. It was soon overcome. Dr. Anisur Rahman, who had been a member of the first Planning Commission expressed the following views on the desirability of Bangladesh following its own destiny:

On the morrow of the liberation, the government of the People's Republic of Bangladesh had announced its intention not to accept aid from any country which had been hostile to its liberation struggle, no matter what this policy would cost the nation. This was a very exciting decision. If followed this would have meant no US aid for Bangladesh, and thus the biggest single source of foreign aid would have been cut off . . . the nation would have been forced to adopt a more austere reconstruction and development policy . . . such a highly respected and courageous policy, if faithfully followed, would have raised the prestige of Bangladesh as a nation . . . Besides, a government which could sustain such a challenging attitude to foreign aid, would have adopted equally bold distribution policies at home, so that the suffering from whatever post-liberation shortages there would have existed, would have been widely shared and hence much better tolerated.²⁰⁵

The result was that humanitarian assistance was available from a wide variety of donors very shortly after the end of hostilities. The independence of Bangladesh did not cause the divisiveness between donor countries that, for example, the attempt of Biafra to break away from Nigeria had only a few years before. In the period following the formation of the new government feelers were extended to a broad range of potential donors. Even the United States, which had been opposed to the breakup of Pakistan,

extended humanitarian aid shortly after independence. Only China delayed assistance until Pakistan had recognised Bangladesh.

At the end of the War of Liberation the total damage to the infrastructure was estimated to be taka 9,600.0 million, or approximately 21.19 per cent of the 1972/73 GDP.²⁰⁶ In the immediate months following Bangladesh was pledged \$171.5 million in food aid alone and had disbursed \$129.7 million.²⁰⁷ Bangladesh became a focal point for the aid community, including the UN System, the bilateral donors from both the market and non-market economies and the larger non-governmental organisations (NGOs). In the first seven months after independence fourteen countries committed aid to Bangladesh and nine of them actually disbursed aid. During the following year the number either committing or disbursing aid had grown to twenty-one bilateral donors, thirteen of them from the DAC countries, six from the eastern bloc non-market economies and two from the non-aligned movement plus an additional seven international agencies.²⁰⁸ Nevertheless different donor nations regarded the new government from quite different perspectives.

The most prominent among the multilateral agencies during the early days of Bangladesh was UNROD. It was constituted as the successor to UNEPRO which had been established during the summer of 1971 to deal with the refugee problem that was building in India following the outbreak of hostilities.²⁰⁹ UNROD,²¹⁰ and its successor organisation UNROB, were specifically designed to address the problem of reconstruction in Bangladesh and to coordinate the contributions of both the other United Nations organisations and the of other donors.

Following the establishment of the new government, foreign exchange became available from foreign donors as emergency relief was mobilised. Between December 16, 1971, Victory Day, and the end of the first fiscal year, June 30, 1985 the following commitments and disbursements were made.

TABLE 3.10
Aid Disbursements
(Millions US Dollars)

	Committed Food Aid	Disbursed Food Aid	Committed Program Aid	Disbursed Program Aid	Committed Project Aid	Disbursed Project Aid	Total Aid Committed	Total Aid Disbursed
1971/72	171.5	129.6	292.7	137.7	146.6	3.4	610.8	270.7
1972/73	258.8	182.6	302.1	288.9	317.5	80.0	878.4	551.5
1973/74	155.2	228.7	176.0	108.1	223.9	124.4	555.1	461.2
1974/75	461.1	382.3	415.1	375.7	390.5	143.0	1,266.7	901.0
1975/76	240.8	313.5	360.9	361.6	357.2	125.5	958.9	800.6
1976/77	143.1	121.6	304.1	254.6	279.7	158.6	726.9	534.8
1977/78	138.8	177.8	426.1	380.5	582.9	275.6	1,147.8	833.9
1978/79	300.7	179.1	604.4	482.6	855.1	368.4	1,760.2	1,030.1
1979/80	270.0	374.7	285.3	378.5	597.9	469.9	1,153.2	1,223.1
1980/81	202.9	194.1	354.9	392.5	1001.5	559.9	1,559.3	1,146.5
1981/82	220.6	230.5	513.0	419.9	1189.3	589.3	1,922.9	1,239.7
1982/83	248.4	255.5	474.4	452.0	799.8	469.9	1,522.6	1,177.4
1983/84	285.2	276.4	528.2	439.2	881.7	552.8	1,695.1	1,268.4
1984/85	380.2	244.5	253.1	431.6	1339.6	590.9	1,972.9	1,267.0
Total	3,477.3	3,290.9	5,290.3	4,903.4	8,963.2	4,511.6	17,730.8	12,705.9

Source: Bangladesh, *Flow of External Resources into Bangladesh (As of June 30, 1985)*, Dhaka: External Resources Division; Ministry of Finance, December 1, 1985, tables 4, 5, and 6, pp. 18-91.

Table 3.10 shows that the amounts committed in each category by the donor community during the first year were of the same order of magnitude. The amounts disbursed, however, as a ratio of commitments, varied widely; from 75.6 per cent of food aid to 47.0 per cent of program aid to 2.8 per cent of project aid. This skewing toward more liquid forms of resource transfer was to be expected in the first year of independence due to the relatively longer time that it takes to mount projects than to deliver food or commodities. The pattern of slow disbursing project aid still holds to the present, if in a somewhat less exaggerated manner than exhibited in the first year. In fact during the first two and a half years after independence Bangladesh received more foreign aid than it had during the previous 23 years.²¹¹

As we discussed in Chapter II, there was during this initial period a particular reluctance on the part of the Planning Commission to seek too close a relationship with the World Bank, the largest and most influential of the donors. Furthermore, there were abundant offers of assistance from other donors, some of whom, it was believed, shared the views and aspirations of the new leaders much more closely than others as they gained an awareness of the plight of the mass of the population.²¹²

The importance of the effort to pursue a line of action different from the traditional approach taken by the World Bank and the major donors should not be

underestimated. It showed a desire on the part of the developing country to move to the role of determining its own destiny. It is difficult, in considering the ultimate objectives of development, why this move towards a more independent stance was opposed by the World Bank since it indicated the kind of leadership that so many developing countries need.

The 1973 Bangladesh Aid Donor Meeting was, in fact, used as a model by Egypt in the organisation of the January 1981 donor meeting held at Aswan to demonstrate their independence from the World Bank. It was seen to give the recipient country an opportunity to guide the discussions rather than abdicating this responsibility in favour of the World Bank.²¹³ The Bangladesh meeting did not go as smoothly as planned. Many of the bilateral donors went expressly against the wishes of the host country which had requested that there be no pledging. They made pledges which were conditional on the satisfactory resolution of the debt issue, the very point Bangladesh had sought to avoid.²¹⁴

This relative independence from the influence of the donors soon deteriorated. By 1974 the rise in the price of oil and other commodities had led to a deteriorating economic situation. It was exacerbated by the combination of floods and reduced purchasing power,²¹⁵ global inflation and increased commodity prices.²¹⁶

During this period Bangladesh was invaded by one of the largest contingencies of relief workers ever to descend on a country.²¹⁷ This was bound to cause friction between the bureaucrats of the country and the newcomers as charges of corruption and misuse came from the relief teams,²¹⁸ many of them young in a society that respects maturity. On the other hand senior officials were irritated by the workers self-importance²¹⁹ and their insistence on interfering with what the government officials believed were domestic matters.²²⁰

TABLE 3.11
Sectoral Disbursement of Project Aid
(000,000 US\$)

	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	Ave
Agriculture, Water & Rural Development														
Crops	0.7	2.3	6.3	3.5	10.7	34.1	24.4	30.0	42.0	47.4	56.8	105.0	76.2	439.4
Rural Development	0.0	0.6	6.1	0.6	3.8	9.1	5.0	12.5	12.7	11.1	18.5	15.2	18.8	114.0
Irrigation	14.1	20.1	14.9	10.2	10.0	15.0	21.0	28.7	51.2	49.9	50.2	49.1	54.4	388.8
Industry	2.5	17.0	31.6	30.0	48.0	59.0	100.0	76.5	70.0	93.4	52.8	32.4	54.5	667.7
Power	7.2	15.0	20.6	25.0	17.2	40.0	47.8	83.3	70.1	63.1	65.2	143.6	147.3	745.4
Natural Resources	0.0	2.8	3.5	1.9	1.1	8.0	2.0	24.9	30.7	86.8	60.7	41.6	59.6	343.6
Science & Research	0.0	0.0	0.1	0.3	0.5	0.5	1.4	0.3	0.7	8.4	9.0	2.3	0.1	23.6
Transport	51.2	47.2	9.7	13.0	31.4	50.3	72.0	130.0	139.8	102.4	63.5	27.4	51.0	788.9
Communications	0.2	2.2	4.4	1.8	5.9	11.0	5.0	10.3	9.6	22.2	9.4	7.4	8.2	97.6
Physical Planning & Housing	3.6	3.4	0.0	5.6	3.0	3.0	8.0	8.0	27.2	11.0	10.5	11.8	4.7	97.6
Social Sector														
Education	0.2	2.8	0.0	6.4	5.7	9.4	10.0	12.5	12.1	10.0	10.8	19.5	23.0	122.4
Health	0.0	4.4	7.9	8.4	2.5	12.3	4.8	12.5	16.0	10.5	8.2	10.0	12.4	109.9
Family Planning	0.2	5.2	5.6	4.6	7.1	6.5	18.5	15.7	22.5	23.4	18.8	23.3	11.2	162.6
Social Welfare	0.0	0.1	8.5	2.2	0.2	1.5	2.5	1.2	1.1	0.2	0.2	0.4	0.0	18.1
Manpower	0.0	0.0	4.0	0.1	0.2	0.2	0.3	0.3	2.8	1.5	0.2	0.2	0.1	9.9
Public Administration	0.0	0.0	0.1	0.1	0.3	0.2	0.5	0.7	1.0	3.6	0.0	0.4	0.1	7.0
Planning Commission	0.0	0.0	7.9	0.0	0.3	0.5	1.7	2.1	0.3	0.0	0.0	0.0	0.0	12.8
Cyclone Reconstruction	0.0	0.8	9.2	6.2	2.4	2.5	3.5	0.4	0.0	0.0	0.0	0.0	0.0	25.0
Private (NGOs)	0.1	0.5	2.6	5.6	8.2	12.0	20.0	20.0	50.1	44.0	34.0	63.2	69.3	329.6
Total	80.0	124.4	143.0	125.5	158.5	275.1	368.4	469.9	559.9	588.9	468.8	552.8	590.9	503.9

Source: Bangladesh, External Resources Division, Ministry of Finance, Flow of External Resources into Bangladesh (As of June 30, 1985), table 16, pp. 162-163.

TABLE 3.12
Sectoral Disbursement of Project Aid
(As a percentage)

	72/73	73/74	74/75	75/76	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	Ave
Agriculture, Water & Rural Development														
Crops	0.9%	1.8%	4.4%	2.8%	6.8%	12.4%	6.6%	6.4%	7.5%	8.0%	12.1%	19.0%	12.9%	9.8%
Rural Development	0.0	0.5	4.3	0.5	2.4	3.3	1.4	2.7	2.3	1.9	3.9	2.7	3.2	2.5
Irrigation	17.6	16.2	10.4	8.1	6.3	5.5	5.7	6.1	9.1	8.5	10.7	8.9	9.2	8.6
Industry	3.1	13.7	22.1	23.9	30.3	21.4	27.1	16.3	12.5	15.9	11.3	5.9	9.2	14.8
Power	9.0	12.1	14.4	19.9	10.9	14.5	13.0	17.7	12.5	10.7	13.9	26.0	24.9	16.5
Natural Resources	0.0	2.3	2.4	1.5	0.7	2.9	6.0	5.3	5.5	14.7	12.9	7.5	10.1	7.6
Science & Research	0.0	0.0	0.1	0.2	0.3	0.2	0.4	0.1	0.1	1.4	1.9	0.4	0.0	0.5
Transport	64.0	37.9	6.8	10.4	19.8	18.3	19.5	27.7	25.0	17.4	13.5	5.0	8.6	17.5
Communications	0.3	1.8	3.1	1.4	3.7	4.0	1.4	2.2	1.7	3.8	2.0	1.3	1.4	2.2
Physical Planning & Housing	4.5	2.7	0.0	4.5	1.9	1.1	2.2	1.7	4.9	1.9	2.2	2.1	0.8	2.2
Social Sector														
Education	0.3	2.3	0.0	5.1	3.6	3.4	2.7	2.7	2.2	1.7	2.3	3.5	3.9	2.7
Health	0.0	3.5	5.5	6.7	1.6	4.5	1.3	2.7	2.9	1.8	1.7	1.8	2.1	2.4
Family Planning	0.3	4.2	3.9	3.7	4.5	2.4	5.0	3.3	4.0	4.0	4.0	4.2	1.9	3.6
Social Welfare	0.0	0.1	5.9	1.8	0.1	0.5	0.7	0.3	0.2	0.0	0.0	0.1	0.0	0.4
Manpower	0.0	0.0	2.8	0.1	0.1	0.1	0.1	0.1	0.5	0.3	0.0	0.0	0.0	0.2
Public Administration	0.0	0.0	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.6	0.0	0.1	0.0	0.2
Planning Commission	0.0	0.0	5.5	0.0	0.2	0.2	0.5	0.4	0.1	0.0	0.0	0.0	0.0	0.3
Cyclone Reconstruction	0.0	0.6	6.4	4.9	1.5	0.9	1.0	0.1	0.0	0.0	0.0	0.0	0.0	0.6
Private	0.1	0.4	1.8	4.5	5.2	4.4	5.4	4.3	8.9	7.5	7.3	11.4	11.7	7.3
Total	100.1%	100.1%	99.9%	100.1%	100.1%	100.1%	100.1%	100.2%	100.1%	100.1%	99.7%	99.9%	99.9%	99.9% ^A

Source: Calculated from Bangladesh, External Resources Division, Ministry of Finance, Flow of External Resources into Bangladesh (As of June 30, 1985), table 16, pp. 162-163.

^A Deviations from 100% are due to rounding errors.

Finally, there was large scale smuggling of relief goods and jute, practically the country's only foreign exchange earner at the time, to India. There, although the official exchange rate of the taka to the rupee was at par, the unofficial rate was at two to one. Thus, essential commodities were being smuggled out of the country to be exchanged for cheap consumer goods²²¹ which in turn went to satisfy domestic demand. We conclude that this excess of money from the proceeds of smuggling and the "appropriation" of aid, in the economy contributed to the inflationary pressures that the country was facing.

Finally the termination of UNROB operations on December 31, 1973 meant that the flow of resources that had staved off famine and an economic crisis for two years was gone.²²²

Aid declined towards the end of the first period only to return in larger quantities in response to the 1974 famine. It had become an essential part of the economic landscape of the country. It was a major source of food, an important source of capital investment, financing for a large proportion of imports and a source of Government revenue.

In Tables 3.11 and 3.12 we see how project aid was allocated among the various sectors by the donors. The donors' preferences are reflected in their allocation of resources devoted to project aid. First, we see that in the agriculture sector irrigation has received about half of the allocation, with rural development getting only a small part. It was to be expected during the reconstruction period that transportation would receive proportionately more than other sectors because of the damage suffered, however, the continuing investment in transport demonstrates continued capital bias. Industry had been damaged during the War of Liberation, therefore, it is not surprising that there was heavy investment initially. The continuing support, well after relief and reconstruction efforts were over, once again showed the preoccupation of donors with capital projects. A total allocation to the whole social sector averaging less than 10 per cent was indicative of the almost complete lack of commitment to this area. This is so even in a country where such things as employment creation, health and population are fundamental to achievement an acceptable standard of living. It is harder to programme in these areas, but a figure of less than 10 per cent puts the whole donor investment in the social sector only slightly above the total private donations from abroad, activities of the NGOs listed

under "private" in Tables 3.11 and 3.12, a comparatively small amount. The allocation to the industrial sector indicates much the same bias. In sum, as Tendler contends, the donors prefer urban, capital intensive projects to those in the agriculture or the social sectors.²²³ This results in a bias toward those things which tend to benefit mainly the upper classes.

An indication of the Government's attitude toward foreign aid by the Ministry of Finance concerned with maximising the flow of resources, is illustrated by a quote from a speech by then Finance Minister A.M.A. Muhith at a training Course organised in Dhaka on February 9, 1983:

Finally, effective use of aid must consider of beneficiaries of aided activities. Who derives the benefit from transfer of resources? Does the rich become richers? [sic] Are the poorest and the weakest invested with higher productivity as well as better return from their efforts? Whether the distribution system provides aid to reach the poor and the deprived. Whether agricultural development programme is helpful to small farmer or tenants. Whether a road project only benefits a limited number of users of motor vehicles. Whether immediate production out of an investment is sufficient to contain the inflationary effects of development outlay. These are very intricate and difficult considerations. Sometimes these considerations tend to be incompatible with the objective of rapid disbursement of aid [emphasis added].²²⁴

Muhith is essentially saying that project priorities are secondary and sometimes interfere with the rapid disbursement of aid, a strong indication of White's contention that aid becomes "a habit of mind".

In several specific areas foreign aid has been counterproductive to the long term objective of self-reliance. There has been a lack of attention to the productive potential of the poorest elements of the society who form an important impediment to the development of domestic markets. There is a lack of investment in agriculture, the largest sector. There is little incentive for either the government or the private sector to engage in productive effort. Finally, investments made in expanding the productive capacity of certain sectors have remained under-utilised in the face of competition from imports financed by foreign aid.

Thus, we see the following:

- Aid has concentrated on those areas where it is easiest to spend funds;
- It has ignored those areas where it is most difficult to programme effectively;
- Donors have tolerated poor administrative performance and, more serious yet, strong evidence of corruption;
- Aid has been selective, not in the quality of project, rather in the ease of disbursement;

- It has in some cases become a disincentive to development.

Conclusions. Why did donors whose stated objectives were to alleviate poverty ignore mounting evidence that most aid benefited not the poorest elements of society? Why did they concentrate on those who were comparatively speaking among the better off in society? Why did they concentrate the greater part of their resources on areas where the benefits accrued to the better of elements of the society?

In many specific areas foreign aid has been counterproductive to the long term objective of self-reliance. There has been a lack of attention to the productive potential of the poorest elements of the society who form an important impediment to the development of domestic markets. There has been a lack of investment in agriculture, the most important sector. There has been little incentive for either the government or the private sector to engage in productive effort. The relative abundance of free foreign exchange and taka has been a disincentive to increasing the rate of domestic resource mobilisation. Finally, investments made in expanding the productive capacity of certain sectors have remained under-utilised in the face of competition from imports financed by foreign aid.

This study will show the important determinants in Chapter V, through an analysis of donor administrative and organisational policies, constraints and performance. We will show that pressure to disburse, lack of analytical capacity with consequent over-reliance on the World Bank's short-term outlook reduce the effectiveness of aid. Lack of coordination among the donors and putting priority to their own short-term objectives at the expense of the recipient's long-term objectives of the recipient by the major donors, have contributed to an increasing dependence on foreign aid. This in turn has led to diminished efforts aimed at achieving a greater measure of self reliance and an increasingly inequitable distribution of the country's wealth. This action by donors has in addition reinforced the particular parts of society in the recipient country that benefit from aid, creating an influential group with a vested interest in maintaining the demand for increasing aid.

To interventionist donors the alleviation of poverty is a minor objective, notwithstanding rhetoric to the contrary. The main thrust of the prevailing strategies is one that will encourage growth even at the expense of equity. For most donor countries the articulated objectives of supporting international development are to provide the

inhabitants of the less developed countries with a better standard of living and promote increased economic self-sufficiency. For some, this also implies that developing nations will be able to take their position in the international trading system. Other donors still may have strategic objectives which further their foreign policy goals. Common sense tells us that no nation, developing or developed, has as its objective an increasing reliance on the generosity of the wealthy nations. Yet donor policy in Bangladesh since independence has contributed to increasing dependence and the undermining of Bangladesh's legitimate aspirations of self reliance.

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CHAPTER IV

POVERTY AND DEPENDENCE

The Dimensions of Poverty

R. H. Khandker describes what poverty is like in Bangladesh:

About one-third of the total population is unable to eat two [emphasis added] full meals a day on many days of the year. A full meal does not constitute anything like a balanced diet; for the poor it means a bowl of rice with a little fish and vegetable or pulses to provide the taste to empty the bowl. About one pound of rice, 3-4 ounces of fish cooked with an equal quantity of vegetable (as curry), supplemented by some dal (lentil or some other pulses cooked as soup) constitute a square meal in Bangladesh. A family that can get such a meal every day from its income is not considered poor, although such a meal is insufficient in calories or other nutrients.¹

He continues with other dimensions of poverty:

. . . all children up to 6 years are deficient in calorie and protein intake (60 percent are wasted and stunted, 50 percent only stunted and 6 percent only wasted). About 70 percent of the entire population is anemic, and 82 percent children below 5 years do not have the minimum acceptable level of hemoglobin in blood [sic]. . . annual per capita cloth consumption is estimated to be 6 yards . . . 6 yards of cloth gives no more than two pieces of loin cloth and a shirt to an adult male or just one saree to an adult female. . . . A typical house for the rural poor constitutes a hut with thatched roof and bamboo fencing. There are also mud houses in some parts. Having corrugated iron sheets as roofing would mean a somewhat higher class housing, . . .²

Poverty is therefore both serious for the individual and is widespread throughout the country.

The Trends in Poverty

Poverty is essentially a rural phenomenon in Bangladesh where the majority of the population live. Less is known about the urban poor. The landless and functionally landless are the poorest of the poor.³

Bangladesh was not always the poor country portrayed on these pages. Farouk⁴ compares the wages of a clerk in 1792 with one in 1980 in terms of the quantity of rice he could purchase, a method of determining wage rates that is still in effect in Bangladesh.⁵ He found that purchasing power had declined to about one sixth its value at

that time. Even during the period since independence poverty has increased dramatically. A.R. Khan estimates that the percentage of "extremely poor" has increased from 5.2 per cent in 1963/64 to 41 per cent in 1975. The agricultural wage rate had declined steadily, except for a brief period between 1961 and 1964.⁶ The growth in population is no doubt one of the principal factors that has contributed to this state, but there are other causes. The lack of employment opportunities and lack of access to resources have also contributed to the deteriorating standard of living there. These factors, according to some writers, contribute to polarisation of the society, particularly in the rural areas⁷ and this in turn results in increasing disparity in income.

There are several measures which can be used to indicate the amount of relative poverty. The principal problem is the collection of reliable data for the measurement. Bangladesh is no better than most developing countries, and worse than many in this respect. Much of the work quoted in this chapter is derived, therefore, from a combination of empirical evidence combined with the subjective observations of researchers involved in trying to assess the extent of the process of impoverishment in Bangladesh.

Income Distribution. Changes in the distribution of income over time are one of the ways of measuring the process of impoverishment of some parts of society in relation to others. Data in this area is scarce. Despite Hollis Chenery's assertion that the World Bank has one of the best collections of information on poverty and the distribution of income, comparative data for only one low-income country, Bangladesh, is published in successive issues of World Development Report.

World Development Report: 1984 and World Development Report: 1986, give income distribution statistics for Bangladesh for the years 1973/74 and 1976/77. This period also coincides with the 1974 famine and so may not present a typical picture. There are, however, other indicators which support the picture of a shift in income distribution.

TABLE 4.1
Distribution of Income, 1973/74 and 1976/77

	Lowest 20 Per cent	Second 20 Per cent	Third 20 Per cent	Fourth 20 Per cent	Ninth 10 Per cent	Highest 10 Per cent
1973/74	6.9	11.3	16.1	23.5	14.8	27.4
1976/77	6.2	10.9	15.0	21.0	14.9	32.0

Sources: Derived from World Development Report 1984, table 28, p. 272 and World Development Report 1986 table 23, p. 226.

Table 4.1 shows a pronounced shift in the distribution of income. From 1973/74 to 1976/77 the share of the least advantaged eighty per cent of the population diminished while the share of the highest quintile and, most significantly, the highest decile rose.

Table 4.2 shows the deterioration since 1963/64 in the share of the lowest 40 per cent and the corresponding gains at the upper end of the scale.

TABLE 4.2
Distribution of Income, 1963/64 and 1976/77

	Bottom 40 Per cent	Middle 40 Per cent	Upper Middle 15 Per cent	Top 5 Per cent
1963/64	20.1	38.0	24.1	16.8
1976/77	18.3	39.0	25.4	17.3

Source: S.R. Osmani and A. Rahman, "A study on income Distribution in Bangladesh", (Dhaka: BIDS, 1981) quoted in *Rural Poverty in Bangladesh: A Report to the Like-Minded Group*, North-South Institute, April, 1985, (Mimeographed), p. 82.

Osmani and Rahman's calculations agree with those of the World Bank and show the same trend towards increasing poverty in the poorer classes of the society and the accumulation of wealth by the upper classes.

If we analyse this in terms of the distribution in real GDP over the same period we find that the increase in the highest 10 per cent is much more significant than is initially apparent. In Table 4.3 we analyse the effect of this shift in the distribution using constant GNP in 1972 taka.

TABLE 4.3
Distribution of Growth in GNP and Per Capita GNP
(Millions of taka at 1972/73 prices)

	Lowest 20 Per cent	Second 20 Per cent	Third 20 Per cent	Fourth 20 Per cent	Ninth 10 Per cent	Highest 10 Per cent
1973/74 GNP	3,497.4	5,727.6	8,160.5	11,911.3	7,501.6	13,888.0
1976/77 GNP	3,699.9	6,504.7	8,951.4	12,532.0	8,891.8	19,096.4
GNP p.c. 73/74	227.0	371.8	529.7	773.1	973.8	1,802.9
GNP p.c. 76/77	223.7	393.1	541.1	757.6	1,075.0	2,308.8
Change in GNP p.c.	-3.3	+21.4	+11.4	-15.1	+101.2	+505.8
% Total Increase	-1.5%	+5.8%	+2.2%	+2.0%	+10.4%	+28.1%
% Increase p.a.	-0.5%	+1.9%	+0.7%	-0.7%	+3.5%	+9.4%

Sources: The real 1973/74 GNP was 50,686.3 million taka and for 1976/77 59,676.3 million taka. World Bank, *Bangladesh: Economic and Social Development Prospects* Report No. 5409, 4 vols, n.p.: World Bank, 1985. Population was 77.031 million for 1973/74 and 82.713 million for 1976/77, Population figures from BBS 1979 table 2.6, pp. 50-51.

Table 4.3 shows that the poorest elements of society i.e., the lowest twenty per cent actually suffered a decline in their real incomes during the 1973 to 1977 period. Put another way they averaged an annual decline in income of 0.5 per cent. At the other end of the scale, the wealthiest 10 per cent benefited from an average annual increase in income of 9.4 per cent. This period was one during which aid receipts increased dramatically in order to help the poorest elements in the country. Despite this the poorest elements actually lost in real terms while the better off elements, particularly the top 10 per cent gained significantly. The implication of this is that population increase and income distribution shift conspired to outstrip the growth rate of the economy for the majority of the population, and this despite an increase in the total amount of aid Bangladesh received. This in itself does not establish a causal relationship, but it does raise questions as to how this new influx of resources was used.

TABLE 4.4
Distribution of Income Prior to Independence

	Lowest 5 Per cent	Lowest 20 Per cent	Highest 20 Per cent	Highest 5 Per cent
1963/64	1.2	7.7	45.7	20.4
1967/68	1.8	8.7	44.1	20.4
1968/69	2.0	9.3	40.5	20.4

Source: Mubuidin Khan Alamgir, *Development Strategy for Bangladesh* with forward by Gustav F. Papanek (Dacca: Centre for Social Studies, June 1980), table I-22, p. 45.

Data from the 1960s indicates that, during the time that Bangladesh formed part of Pakistan, the distribution of income for the poorest elements of the society was improving slowly. The share of the top 5 per cent stayed constant at a little over 20 per cent. The share of the lowest 5 per cent grew from 1.2 per cent in 1963/64 to 2 per cent in 1968/69. The share of the lowest 20 per cent grew from 7.7 per cent to 9.3 per cent during the same period. While the two measures are not directly comparable with the studies in the post-independence period, the trends appear clearly to have been reversed. This was a time when one of the chief complaints, and a contributor to the civil war, was that East Pakistan was not receiving its fair share of aid resources. We conclude from this that, despite the perceived exploitation of the East Wing of Pakistan and the concentration of aid on the West Wing cited by Sobhan, there was measurable improvement in the distribution of income when compared with the worsening which occurred during the 1970s.

Poverty Level. In determining an acceptable poverty level for a particular country or group the FAO/WHO methodology is to estimate the appropriate requirement of nutrition based on body weight and activity. They then estimate the cost of this diet and add in the costs of additional basic requirements, such as clothing and housing.⁸ This figure is then compared with actual income. The results of applying this method to Bangladesh, Table 4.5, show an increasing proportion of the population below the poverty line. Significantly the movement between 1963/64, population 58.94 million and 1973/74, population 77.03 million, is small in percentage terms, some 0.5 per cent growth per annum in those below the line, but still a significant 13.2 million people. In the three years after 1973/74 the proportion has increased by 8.5 per cent or about an additional 11 million.⁹

In another comparable study carried out by local researchers, Hossain and Ahmed, the methodology was altered to better take into account the dietary habits of Bangladeshis. The projected expenditure on non-food items was reduced from the average of 25 per cent used in the 1976/77 Household Survey to 15 per cent. The percentage of people living below the poverty line is then calculated. The results are shown below in Table 4.5:

TABLE 4.5
The Percentage of Rural Population Below the Poverty Line

	FAO Estimates	Ahmed and Hossain
1963-64	75.0%	52.0%
1973-74	74.5	55.7
1976-77	83.0	61.1

Source: Ahmad and Hossain, 1984, p. 15. quoted in North-South Institute, "Report on Rural Poverty", table 2, p. 69.

The estimates made by Ahmad and Hossain are lower than those using the FAO/WHO criteria due to their more conservative assumptions.¹⁰ Nevertheless, they still show that more than half the population receives less than the acceptable level of nutrition. They also confirm the FAO trend to worsening nutritional levels. This underlines the very serious nature of the mass poverty that exists in rural Bangladesh. When more than half the population is living below the poverty line the problem has ceased to be one of welfare. It has become a fundamental structural problem in the economy.

The pattern that Table 4.5 presents is an interesting one. This measure of poverty is heavily weighted by the measurement of a basket of foodstuffs. It may therefore be useful to examine the relationship between agricultural production and poverty. Annual growth in the agricultural sector during the 1960s was 3.34 per cent while population increased at an annual rate of some 3.0 per cent. This was much improved over the previous decade. Agricultural growth stagnated in (then) East Pakistan during the 1950s, averaging only 0.25 per cent per year while population grew at an annual rate of 1.9 per cent. During the period from 1970/71 to 1983/84 agricultural growth averaged 2.2 per cent per annum, while population growth reached 2.6 per cent per annum.¹¹ It is interesting, therefore, to see that with only a modest decline in the rate of growth of agricultural production between the 1960s and the 1970s there is a sharp increase in the number of the population living below the poverty line. The conclusion is

inescapable that even those living above the poverty line are still on the very margin of poverty.

The War of Liberation was undoubtedly a contributing factor to the increase in poverty. It is curious, however, that the fall in quality of life occurred well after the war was over. Even if we consider that the dates for this data straddle the 1974 famine, the comparison with the effect of the War of Liberation shows a far steeper decline during the latter period. We will examine some of the causes of this phenomenon. In a country where agriculture is the dominant sector both for the generation of income and the provision of employment it will be useful to look there for the flow of resources. We have seen in Chapter III that the urban market has been provided with cheap food largely through the Food Distribution System. The System is supplied by the food aid provided by the foreign donors.¹² In contrast with this, relatively higher prices prevail¹³ in the rural market. This in turn means that the sale of food from surplus producers stays mainly within the rural areas resulting in minimal inflow of money from the urban areas. As Jansen points out, an urban market that demanded food would provide stronger demand and incentives for increased production.¹⁴

There are occasions where there is demand from an external market. Such was the case of the procurement of rice by the Government such as during 1977 and 1978. During this period the Government procured rice at prices above the prevailing market price.¹⁵ What resulted, however, was collusion between government officers and traders or rich peasants. This made it difficult for the poorer farmers to sell their produce to the procurement officers without going through the traders or larger farmers. The small farmers therefore derived little or no advantage from the higher price that prevailed during that period.¹⁶ Conversely the rural elite "appropriated" the increase in price which was then shared with the government procurement officers. The reason for Government officers being susceptible to such practices is that they are very poorly paid. Salaries of 500 to 1000 taka per month were paid in 1980, which were scarcely enough to survive on, particularly when posted to rural areas while continuing to maintain families in urban areas.¹⁷ The result was that the temptation to split profits from such windfalls

was irresistible.* The Government officers' portion of the resource, therefore, flowed back to the urban areas.¹⁸

An additional factor is that the inputs for improved agricultural practices originate largely from the urban areas. Fertiliser, irrigation equipment and high yielding variety seed, i.e., initially HYV seed must be imported, although, once seed multiplication units have been established, the dependence on the urban sector diminishes somewhat. Once again the flow of resources is toward the urban areas.

The irony of the situation is that the small and marginal farmers have a much higher cropping intensity than the larger peasant farmers. This is because of the need to produce more on their very small pieces of land.¹⁹ Larger land owners can still achieve relatively high levels of productivity since they have better access to credit and hence to modern inputs, such as fertiliser, HYV seed and irrigation equipment. This improved access results from their ownership of cash or collateral that the small farmer lacks.²⁰ They are, however, not as productive, lacking as they do the incentive to maximise productivity. Many are absentee landlords and little of their profit is reinvested in land improvement. Instead it is invested in money lending and other more remunerative activities.²¹ Government officers argue that the large farmers are a better risk because of their ownership of collateral, which in traditional terms they are. The fact remains that they are not as productive as the small farmers.²²

The situation is summed up in the "Report on Rural Poverty". "What is important to emphasize. . . is that individual resources are generally parlayed for additional ones and those without selected resources lose both control of a single productive factor and access to additional ones."²³

Landlessness. Land is one of the few tangible assets in which people can invest savings, given the absence of developed capital markets. Even for the urban dwellers it is an important hedge against the economic and political instability that prevails in Bangladesh. Because of the bonds that exist between the urban middle class, civil servants, the military, professionals and small businessmen and their villages there may be a greater propensity to invest in land than there was in times previous.²⁴ Even currency does not necessarily provide security as many learned to their detriment in 1975

*From the writer's experience in Bangladesh, many government officers posted to rural areas leave their families behind in Dhaka where access to health and education facilities is better thus incurring the added burden of the cost of running two households.

when the 100 taka banknote was demonetized as part of the Government's attempt to catch speculators.

The importance of land in the rural economy is illustrated in the following example:

Land, for instance, is not only a technical resource contributing to agricultural subsistence, it is also the basis for negotiating access to additional resources such as irrigation facilities and rural credit. Today, as in the past, land and other resources increase the status of selected rural families. Control of land also situates families in complex social and political networks where influence and power, access to education, government and military service, the observance of purdah, i.e., the seclusion of women, and the marriageability of sons and daughters to equally or better endowed families, is negotiated. The processes by which family mobility is achieved or lost is dependent upon a variety of factors of which the acquisition, maintenance, or loss of land remains important if not of sole significance.²⁵

Increasing landlessness has in recent years been exacerbated by the flow of migrant labour to the Middle-East and their remittances. These have become one of the most important sources of foreign exchange for the Government. Migrant workers returning from the Middle-East with savings return to their villages and invest in land.

The Wage Earner Scheme introduced by the government allows returning migrant workers to sell their foreign exchange for a premium to importers, as part of the Government's liberalisation policy. It essentially subsidises the purchase of land by the amount of the premium which varies from 8 to as high as 20 per cent. In some areas the cost of land has increased many fold in recent years.

Table 4.6 shows the shift in landholdings from 1968 to 1978. It is fair to assume that this trend has continued, probably at an accelerated rate from 1980 onwards when remittances rose at dramatically.

TABLE 4.6
Distribution of Land Ownership

	1968	1978
Top 10 Per cent of Population	34%	49%
Bottom 10 Per cent	1	2

Sources for 1978: World Bank, Bangladesh: Economic and Social Development Prospects, Report No. 5409, Vol. I (n.p.: The World Bank, April 2, 1985). p. viii and for 1968: World Bank, Bangladesh: Current Economic Situation and Development Policy Issues, Report No. 1469-BD (n.p.: The World Bank, May 19, 1977). p. 1.

The process of increasing landlessness as described above has increased rural poverty by making the large landholders more powerful and the marginally landless and landless weaker and more vulnerable to exploitation.

TABLE 4.7
Land Distribution
(Late 1970s)

	Holding (acres)	% Population	% Land Held
Large Landowners	5.0+	6%	45%
Mid-sized Landowners	2.5-5.0	17	33
Small Landowners	0.5-2.0	33	20
Marginal & Landless	0.0-0.5	50	3

Source: Harry Blair, "Participation, Public Policy, Political Economy and Development in Bangladesh, 1958-85", World Development, Vol.13, No. 12, 1985, p. 1240 citing F.T. Janniez and J.T. Peach, The Agrarian Structure of Bangladesh: An Impediment to Development, (Boulder Colo: Westview Press, 1980).

In a detailed study of two villages Rahman concludes:

The concentration of land in the hands of a few has increased in both villages. Simultaneously, we observed a fast increase in the ranks of the landless:

- (i) Households owning less than half an acre of land (including landless ones) comprised about 14% of total households in Village 1 and 12% in Village 2 in 1951. They increased to 41% in both villages in 1981. . . . [emphasis added]
- (ii) Rich households owning more than 7.50 acres of land controlled most of the land owned and operated. In Village 1, these households comprised 16% of total households in 1951 and owned 47% of total owned. While the proportion of households shrank to 7.5% in 1981, they still owned 40% of total land. In village 2 we observed a similar concentration.
- (iii) Gini-co-efficients calculated from our data also indicated growing concentration in both villages.
- (iv) Middle groups of peasantry were observed to be under tremendous economic pressure and some of them have fallen down the social ladder.²⁶

The process of consolidation, "whereby vested or dominant interests increase their direct or indirect control of resources including the monopolization of social linkages and networks",²⁷ leads to polarisation, the "differentiation in resource endowments which locate families and individuals in relation to one another, becomes

institutionalised and provides the context through which additional resources are distributed and controlled."²⁸ The result of this process is that the resources in the rural areas are increasingly inequitably distributed amongst the population. This results in the increasing impoverishment of those at the lower end of the scale. In turn it leads to increasingly inequitable distribution, decreasing nutritional standards and a deteriorating quality of life.

Nutrition. The trend in nutritional intake has been monitored closely in Bangladesh. It has deteriorated significantly since 1951, although the intake of a few nutrients improved between 1962/63 and 1975/76. In only one nutrient, iron, has the trend been consistently upwards.

TABLE 4.8
Per Capita Nutrient Intake
(1962/63, 1975/76 and 1981/82 Surveys)

Nutrients	1962/63	1975/76	1981/82
Calorie (kcal.)	2301.0	2094.0	1943.0
Protein (gm)	57.9	58.5	48.4
Fat (gm)	15.8	12.2	9.8
Carbohydrate (gm)	482.0	439.0	412.0
Calcium (mg)	273.0	305.0	260.0
Iron (mg)	10.3	22.2	23.4
Vitamin A (I.U.)	1870.0	730.0	763.0
Thiamine (mg)	1.5	1.65	1.38
Riboflavin (mg)	0.5	0.87	0.68
Niacin (mg)	23.2	22.21	13.15
Vitamin C (mg)	14.4	9.5	13.26
No. of families	1052.0	674.0	597.0

Source: Institute of Nutrition and Food Science, University of Dhaka, Nutrition Survey of Rural Bangladesh, 1981/82, 1983 in K.Ahmad and N. Hassan, "On Nutritional Surveillance in Bangladesh", The Bangladesh Development Studies, table II, p. 84.

Nutritional intake has been found to vary both with income and with the degree of landlessness. Table 4.8 shows caloric intake in rural areas when calorie intake was used as the dependent variable and prices and wages as the independent variable. Seventy seven per cent of the variation in caloric intake was found to be related to wages and prices.

TABLE 4.9
Calorie Consumption in Rural Areas by Income, 1981/82

Monthly Income Per Capita	Calorie Intake per Person per Day	Percentage of Calorie Requirement Fulfilled
Less than 50	1493	65.77
50 - 74	1769	77.8
75 - 99	1824	80.2
100 - 149	1974	86.8
More than 149	2084	91.7

Source: Institute of Nutrition and Food Science, University of Dhaka, Nutrition Survey of Rural Bangladesh, 1981/82, 1983 in K.Ahmad and N. Hassan, "On Nutritional Surveillance in Bangladesh", The Bangladesh Development Studies, [p.81-93] Vol. 10, No. 3, (September 1982), table VI, p. 87.

The degree of landlessness also has an impact on nutritional intake. In considering the increasing trend toward landlessness it has been observed that nutritional intake tends to vary directly with the size of landholding, with the exception of the completely landless who have a slightly better nutritional intake than the marginally landless.

TABLE 4.10
Average Daily Food Consumption by Landholding Group

Size of Land Holding (acres)	Food Intake (gms/person)		Nutrient Intake per Person			
	1975/76	1981/82	(calories/person)		(gms/person)	
			1975/76	1981/82	1975/76	1981/82
3.0 +	843	873	2375	2222	67.6	55.2
1.00 - 2.99	785	763	2193	1986	62.5	47.7
0.50 - 0.99	745	699	2035	1777	57.7	44.8
0.01 - 0.49	683	673	1924	1672	52.6	44.3
0.0	694	712	1925	1775	52.9	44.4

Source: Nutritional Survey, 1981/82 pp. 64 and 70, and Q. K. Ahmed and M. Hossain, Rural Poverty Alleviation in Bangladesh: Experiences and Policies, In Depth Studies Series No. 10 (Rome: FAO, February 1984), in North-South Institute, "Rural Poverty in Bangladesh" table 5, p. 73.

This apparent anomaly probably indicates the presence of alternative employment. With the trend we have seen above, however, the conclusion follows that, barring some intervention to the contrary, the increasing landlessness will continue to lead to increasing malnutrition. Even the case of the landless having a marginally better nutritional intake than the marginally landless may not be sustainable in the face of decreasing employment opportunities.

Measures of Dependence

Dependence is more than a set of indicators, be they static or dynamic, i.e., demonstrating the trends. It is the result of a complex set of interrelationships which are mutually supportive and which in turn lead to greater dependence.

Sobhan has identified a number of measures of dependence, but he starts from the premise that there is no real surplus available for generating a level of investment within the prevailing social system.²⁹ While it is true that investable surplus is scarce, we argue that it is less the fundamental structure of the system and scarcity of resources, than the abuse of the system by those in power that has led to increasing poverty. This, combined with the attitude that "the world owed Bangladesh a living",³⁰ an attitude which White describes as "aid as a habit of mind", has led to this state of affairs. To date, with the exception of a few activities, the failure to invest in productive enterprise has been largely because the available investment has sought the highest return and this is either importing³¹ or import based industries.³² The Government has been prepared to tolerate this, and even encourage it by the restriction of investment and the overly bureaucratic handling of investment projects.³³ An important factor here, raised by Chadha, is that "There is no such thing as Time-Cost Trade-off between the objective (Project completion on time) and means (Formalities/procedures)".³⁴ In any environment free investment capital will seek the area providing the best return, and in Bangladesh, particularly the overly bureaucratic structure of the Government, that is in importation. Aid agencies unfortunately share this lack of appreciation for the time-cost trade-off in approving and implementing projects, however, so it is rarely a consideration. The two bureaucracies are mutually supporting.

Sobhan's measures as follows are static in their consideration of dependence and he does not consider the trends of the various indicators, nor the implications of increasing dependence at a time when the limits of the donors generosity are clearly close to being reached. Nor, if we accept the argument that such aid as food aid and programme aid actually worsen the balance of trade by making easily available monies for the importation of non-essential goods, does he speculate on the eventual results. The continued importation of food aid first created a demand for wheat, a non-traditional consumption item, which led to a change in tastes. The market then responded because

how much is the availability

the right factors existed for the production of wheat.* Wheat production increased dramatically during the 1970s, but did not result in a corresponding decrease in wheat imports because it simply kept up with growing demand. Demand has continued to grow while the limitations of Bangladesh's wheat growing potential are becoming more apparent. Continued food aid has created a demand for food which has exceeded domestic capacity. This makes it even more dependent on aid to meet its balance of payments shortfall in the absence of a new source of foreign exchange to pay for this food import. *dillo*

Let us look briefly at another imported commodity, aluminium, which has long been provided by the Canadian commodity programme. In addition to its use in various industries, it is readily observable, even the casual visitor to the countryside, that aluminium is a major constituent in the manufacture of pots and dinnerware. This supplements the traditional earthen pottery that is manufactured to meet local demand with local raw materials. What has happened is that the abundant supply of aluminium is cost competitive and, therefore, because of its superior qualities: durability, lightness and the ability to be recycled, it effectively displaces earthenware which is a major labour intensive rural industry, thus putting people out of work. Once again tastes have changed in favour of an import which brings with it no corresponding export potential to pay for future imports. The alternative i.e., the importation of aluminium for industrial purposes with scarce foreign exchange might result in a high enough price to make it uncompetitive with earthenware until such time as the availability of foreign exchange from new export industries brought the price down. Earthenware would continue as an important rural industry until natural market forces forced an adjustment. *or lang rate*

This brief example assumes that the availability of other imports with concessional financing does not make available enough excess foreign exchange to depress the price of aluminium. What these examples do show is that the large scale availability of imports has the potential to disturb market demand and change the structure of the economy. The situation that results is not unlike that in the argument put forth by dependency theorists concerning the structure of peripheral economies being determined by the demands of central economies. The free importation of food and

*In many countries, such as Sudan and Sri Lanka where wheat has been given as a response to food needs no such capacity exists.

commodities results in an economic structure that is dependent on continued aid and may even delay the need to develop export industries.

The first indicator of dependence that we have discussed has been the balance of trade which has increased from a shortfall in export earnings of 7.1 per cent of GDP from 1973 to 1975, to 11.1 per cent from 1976 to 1980 and then to 15.1 per cent from 1981 to 1984.³⁵ Of this the proportion of food and commodity aid are as shown in Table 4.11 to have increased from the first to the second period with both diminishing somewhat in the third period as project aid has grown to a larger proportion of aid.

TABLE 4.11
Balance of Trade and Foreign Aid
(As a percentage of GDP)

	Balance of Trade	Food Aid	Programme Aid	Project Aid	Total Aid
1973 to 1975	7.1%	2.7%	2.7%	1.2%	6.6%
1976 to 1980	11.1	2.7	4.3	3.2	10.2
1981 to 1984	15.1	2.1	2.8	5.2	10.2

Source: Calculated from Bangladesh: Economic and Social Development Prospects Report No. 5409, Vol. IV table 2.4, p. 15 and table 3.3, p. 21.

The shortfall in the balance of trade has been met from two sources, foreign aid, and in the last period, from the increase in foreign remittances from migrant workers, primarily in the Gulf States, and emigrants. The remittances have actually exceeded Bangladesh's largest export, jute manufactures; in most years since 1980, however, they have had some negative effects. While many migrants are unskilled workers, the lure of higher earnings also draws significant numbers of skilled workers thus depleting the country's narrow skilled human resource base. The mid-1980s decline in oil revenues has resulted in a decline in the demand for labour illustrates the fickle nature of this source of foreign exchange. As a temporary supplement to the foreign exchange earnings are a welcome, but are unlikely to provide sufficient foreign exchange to meet the needs of the country at present rates of consumption.

There are several other areas of dependence that we can look at. The Food Distribution System, chiefly as we have seen in Chapter III, a perquisite for the already relatively privileged in this very poor society, has put the Government in a position where it is dependent upon foreign donors to provide what amounts to a subsidy to the civil service. This, in turn, has become a primary source of financing for the Annual Development Plan. The reduction of the subsidy element in the Food Distribution

System, without a corresponding reduction in the System itself has increased the dependence of the Government on the increased revenues derived from sales through the System by providing more revenue. At the same time the reduction in subsidy has not reduced the reliance of the recipients on an assured source of supply, even if the price of food grain is possibly at times close to, or even at times briefly more than, the market price. The scale of the Food Distribution System, nurtured on foreign aid, is such that it is not replicable using local resources, even if the resources existed, to procure more locally. The result of a sudden, or even a gradual, decrease in food aid, conceivable in the light of competing demands for food from Africa, would cause instability and possibly even result in a change in Government. The refusal of the Government during the period of the study to take steps to prevent this has been faith in their strategic card with the principal food aid donor, the United States. Food aid and programme aid have become the cost of keeping a pro-western, open market economy operating. Even the United States, with its tremendous leverage with food aid, has been unable to convince the Government to dismantle the Food Distribution System³⁶ because the Government knows that the United States is unlikely to use the ultimate threat of withdrawing food aid over such an issue, although they might very well over a more serious political issue.

In yet another way the Government have left themselves vulnerable, and dependent on foreign aid. We saw in Chapter III that substantial amount of the Government's current expenditure is now included in the ADP in order that it can qualify for funding derived from the sale of food aid and commodity aid.³⁷

This represents a significant proportion of the budget that does not go to investment, but rather is concerned with meeting recurrent expenses. Thus, much of the indirect tax revenue to finance the recurrent budget, which is not eligible to receive the proceeds from the sale of aid goods, would also be lost if the flow of aid were to slow significantly or dry up.³⁸ What this means is that in the absence of adequate mechanisms to raise taxes, and we have seen that agriculture, the major sector, is largely untaxed, the Government is doubly vulnerable. It could, in the event of a significant reduction in aid, find itself in a position where, not only could it not invest in any new undertakings, but it would find itself unable to meet the recurrent costs now within the Annual Development Plan, including salary costs for regular Government salaries that have been transferred from the recurrent budget.

TABLE 4.12
Transfers from the Development Budget to the Recurrent Budget

[Taka in Crore]

	83/84	84/85	84/85 ^A	85/86
Total ADP (Taka)	3585.0	3896.0	3508.0	3826.0
Project Aid (Taka)	1652.0	1847.0	1565.0	2000.0
Taka Portion	1932.0	2049.0	1944.0	1826.0
CDST	188.0	190.0	158.0	180.0
CDST as % of Taka Portion	9.7%	9.3%	8.1%	9.8%
Revenue Surplus	501.0	766.0	547.0	638.0

Sources: ADP, Bangladesh, Annual Development Plan 1984/85 (Dhaka: Ministry of Finance, 1984) and Annual Development Plan: 1985/1986 (Dhaka: Ministry of Finance, 1985). Budget Surplus, World Bank, Bangladesh: Recent Economic Developments and Medium Term Prospects (n.p.: World Bank, March 17, 1986), table 5.1, p. 26.

^ARevised.

The Government also charges customs duty and sales tax (CDST) on aid financed imports of goods. Donors, on principle do not pay duties on goods financed on concessional terms. This charge of customs duty and sales tax paid for out of the Annual Development Plan allows the Government to transfer monies from the development budget to the recurrent budget, thus circumventing the donors usual condition that counterpart funds generated from aid must not be used to meet recurrent expenses. The recurrent budget usually shows a slight surplus which contributes to the ADP. This transfer of customs duty and sales tax means that this slight surplus is reduced even further. The Government, therefore, barely even covers recurrent costs from domestic resource mobilisation, a further indication of its dependence on foreign aid.

Essentially in the sense that we defined dependence in Chapter I this Government has no freedom of action from the donors' wishes. It continues to exist only because its image of poverty for some donors, and strategic position for others, make it a worthy recipient. While the image is vulnerable to the exposure of the kinds of excess that all governments have indulged in, corruption, the strategic interest may, for the moment, hold more promise, but since the major donor with strategic objectives, the United States, has many world interests, this too is precarious. Its neighbour India has intervened in Bangladesh once before to preserve strategic interests and has recently done so in Sri Lanka and the Maldives. It is not inconceivable that in the face of a breakdown of internal order, it would do so again.

Bangladesh is thus vulnerable to political changes within the donor countries, to changes in other parts of the world which compete with it for aid. In terms of our definition

of dependence in Chapter I, Bangladesh "is unable to make certain domestic choices, . . . unless some sort of permissive or enabling action is taken by the dominant power, . . ."

In the agriculture sector the Government has failed to develop adequate institutions³⁹ to select and deliver the necessary inputs and technology, not only to the larger agricultural enterprises, but to the far more productive small and marginal farmer.⁴⁰ This has resulted in increasing inequity and impoverishment of the poorest where a strengthening of such institutions could instead have resulted in increasing productivity. The trend to increasing landlessness and larger farms results in turn in decreasing productivity and less efficient use of the resources available for, as we recall, small farms are generally more productive than large ones.

The Food Distribution System, as we have seen, has had an adverse effect on the agricultural market in the urban areas. With the majority of urban dwellers purchasing their food from the Food Distribution System, Agriculture is deprived of a primary market. This lack of growth has meant that the potential taxable surplus in the agriculture sector has not developed because there is only limited incentive to increase production or productivity. In turn this serves to justify food aid to sell through the Food Distribution System. It is easier to take the revenue from free food than to increase agricultural production and then tax it. The interrelationship between agriculture and food distribution has become a mutually reinforcing relationship which stifles productivity and production.

The attitude, prevalent amongst the political leaders and the bureaucracy, that aid will continue to be given and will support an increasingly inequitable distribution of income is naive over the longer term. Bangladesh may be able to barter its strategic position to those donors for whom that is the prime motivation, but that will narrow the field leaving it dependent, and hence much more subject to influence, from those donors who have an interest in influencing the political and/or economic system, i.e., the United States and the World Bank, neither an assured source of revenue given American aid policy and the difficulty encountered in recent years in replenishing IDA funds.

Whether Bangladesh is worth a net transfer of almost \$US 2,000 million per annum without any signs of improvement, and probably many signs of deterioration, is open to question and can in the end only be answered by those countries which are willing to pay it. The political instability, already inherent in the present system, will not be improved by a reduction in the breadth of donor participation, which in turn will render it more dependent

on narrower interests. A reduction in aid, in the absence of even the ability to keep the machinery of government moving at all, raises scenarios of the Iranian sort. Donors whose objectives are humanitarian will eventually be drawn to more promising areas in an aid environment of increasing demand for decreasing aid resources.

The preoccupation with capital intensive technology does nothing to utilise the county's most prolific resource, manpower, and makes very inefficient use of the scarce funding available for investment. High technology need not be excluded, as both Singapore and Hong Kong have proven, but the adoption of capital intensive technology in a labour surplus economy is likely to lead to greater unemployment and under-employment. Consequently the result will be increasingly inequitable incomes and decreased political stability. The rapid growth of the garment industry has shown that there are opportunities for countries like Bangladesh, but also that there are limitations to the growth in any one particular area.

In the educational sector, the continued neglect of primary education has limited the opportunities for industrial growth except that which requires unskilled labour. The lack of opportunities in turn have encouraged emigration both on a temporary basis, to the Middle East, and on a more permanent basis to Western Europe and North America. The "brain drain" in turn leaves fewer skilled people in the labour market.

The growth of an upper class that is increasingly distant from the poorer classes, and less inclined to close the gap between them is indicative of the increasing polarisation taking place in the country. Where this will lead is beyond the scope of this study, but examples exist which enable the student of political economy to make credible predictions.

In conclusion, the aid that has been provided to Bangladesh, most of it in a form that is easily diverted to serve other ends, has undermined the basic institutions that make a country viable and give it the potential to achieve self-sufficiency. The inevitable result will be abuses so blatant that they can no longer be ignored by the donors, such as have happened in Haiti or Panama.* Alternately there may be such widespread dissatisfaction that some

*Indeed, with the pressure on drug smuggling in Burma and Thailand the port of Chittagong has already increased in importance as an outlet from the "Golden Triangle". It is inconceivable that there will be no connivance on the part of already corrupt authorities to aid and abet this, particularly given the potential profits.

Alternately widespread rioting during the 1987 elections indicates that there is some disaffection even in the largely illiterate countryside.

populist uprising is possible. In Chapter V we look at the donors' position and how the situation is perpetuated by the structure of the donor agencies.

What we see, therefore, is a Government which initially benefitted from a "resource windfall" of foreign aid which met short term objectives. The upper classes benefitted from the "appropriation" of this aid as did the Government to meet immediate needs. Politically, aid was a very useful resource with which to bestow patronage. These demands on the Government have become institutionalised over time, until it is now in a position where it cannot function without the aid resources it receives. It is vulnerable and unable to resist pressures from the major donors and only the caution of the donors to date, and factors which we shall see in Chapter V, have prevented a complete breakdown. Donors who are in the best position to influence Government policy, the World Bank and USAID have done so often against the wishes of the Government. The World Bank has succeeded by virtue of the resources and information at its command and its willingness and ability to bring pressure to bear on the Government through conditions attached to its loans. USAID has done so both because of the resources it commands and because as a decentralised operation it is in a very good position to be very familiar with Government policy and to influence it, a major American objective.

NOTES

1.R. H. Khandker, "Planning in Poverty: Bangladesh--a test case", New York, UNDP, 23 June, 1978, (mimeographed), p. 6.

2.Ibid., p. 7.

3.Adelman, "A Poverty-Focussed Approach to Development" in Lewis and Kallab, Development Strategies Revisited, p. 50.

4.Farouk, Changes in the Economy of Bangladesh, p. 14-15.

5.World Bank, Report No. 4822, p. 16. The Land Reform Commission of 1983 under Obaidullah Khan recommended that rural wage rates be determined in terms of the amount of rice per day rather than in financial terms.

6.A.R. Khan, "Poverty and Inequality in Bangladesh" in Poverty and Landlessness in Rural Asia, (Geneva: ILO, 1977) cited in A. Farouk, Changes in the Economy of Bangladesh, p. 22.

7.North-South Institute, "Report on Rural Poverty", pp. 57-59.

8.Ibid., p. 68.

9.1979 Statistical Yearbook, table 2.6, pp. 50-51.

10.Ibid., p. 69.

11. Mahabub Hossain, "Agricultural Development in Bangladesh: A Historical Perspective", The Bangladesh Development Studies, Vol. XII, December 1984, No. 4. p. 34.
12. Jansen, Competition for Scarce Resources, p. 242.
13. Ibid.
14. Ibid.
15. Ibid., p. 244.
16. Ibid.
17. Ibid., p. 261.
18. Ibid., p. 269.
19. North-South Institute, "Report on Rural Poverty", p. 144.
20. Ibid., p. 143.
21. de Vylder, Agriculture in Chains, p. 117.
22. Ibid., table 8.3, p. 116.
23. North-South Institute, "Report on Rural Poverty", p. 17.
24. Stepanek, Bangladesh - Equitable Growth? p. 106.
25. North-South Institute, "Report on Rural Poverty", p. 17.
26. Atiur Rahman, "Land Concentration and Dispossession in Two Villages in Bangladesh", The Bangladesh Development Studies, Vol. X, No. 2, (June 1982), p. 82.
27. North-South Institute, "Report on Rural Poverty", p. 28.
28. Ibid., p. 34.
29. Sobhan, Crisis of External Dependence, p. 7.
30. United Nations, Report on the Reconstruction of Bangladesh (New York: United Nations, 1972) cited in Sobhan, Crisis of External Dependence, p. 7.
31. Sobhan, Crisis of External Dependence, p. 46.
32. Farouk, Changes in the Economy of Bangladesh, p. 70.
33. Skylark Chadha, Management of Industrial Projects in Bangladesh with Preface by Abdul Majeed Khan and Foreword by Muhammad Sirajuddin, (Stockholm: FAIBO Grafiska, 1984), p 259. See Chapter 6 for a discussion of the problems and attitudes toward project implementation.
34. Ibid.
35. Calculated from World Bank, Report No. 5409, Vol. IV table 2.4, p. 15.
36. Discussion with Dr Nipa Banerjee, April 4, 1989.
37. Farouk, Changes in the Economy p. 89.
38. Ibid.
39. Bangladesh, A Substantial New Plan for the 1980s, p. 3.
40. de Vylder, Agriculture in Chains, pp. 116-117.

CHAPTER V

THE DONORS: AID IS THE ONLY GAME IN TOWN

The Rationale for Development Assistance to Bangladesh

Considerations: political, economic and humanitarian. There are several factors that influence donors to give foreign aid. While aid is economic in nature, it frequently overlaps into the realm of politics. In fact, despite the economic nature of aid, it is often overshadowed by political considerations.

Holsti identifies four main external political objectives for donors of foreign aid: to create political stability, to change the recipients domestic or foreign policies, as a reward for entering into an alliance, and to assist the recipient in achieving foreign policy goals.¹

This list, while it covers the basic political objectives, is incomplete in that it ignores economic and humanitarian objectives. We will also want to consider these other possible donor objectives in providing aid to Bangladesh. Bangladesh's strategic importance is limited and, of most interest to a few countries in the immediate region or those outside the region with particular interests in the region. These interests must be considered to arrive at a complete picture of the factors which govern the quantity and type of aid being provided.

The economic objectives of foreign aid are an important factor, even in a country as poor as Bangladesh. They can be more general in scope than the promotion of trade. There may be a general desire to see stronger economies in the world for the improvement of the world trading system. Alternately, there may be a belief that economic development leads to a more equitable distribution of income or to the liberalisation of government control. Finally, it may only be to ensure that the poor countries are able to keep on paying their bills to the developed countries.

The developing countries form an increasingly important market for the manufactured goods of the industrialised world. For example, in 1984 the developing economies accounted for some 24 per cent of the industrial market economy countries' merchandise exports.² With strong competition among countries to establish themselves in these growing markets, many governments, concerned with increasing their countries' share of international trade, believe development assistance to be one of the best ways to promote market development. The following extract from the Government of Canada's foreign policy review under the Progressive Conservative Government:

. . . Prospects for the growth of Canadian trade and other economic relations with developing countries will depend in a large measure on how the international trade and financial system accommodates those countries' development needs. Their capacity to export to developed countries is an important determinant of their capacity to import our products, to absorb investment productively, and to meet their financial obligations to us. . . .³

Another facet of this trade objective, as it relates for example, to tied aid, goes beyond the simple provision of goods at attractive rates of financing, to support for technical assistance and training. It is a commonly held belief, in departments concerned with trade promotion, that exposure to new methods and products predisposes Third World nationals in positions of responsibility to favour those products with which they are most familiar when they are able to influence procurement.⁴

Humanitarian objectives may be dictated by the nature of a country's foreign policy. Alternately it may be the result of pressure by an active and aggressive domestic interest group or by the nature of a particular situation which is well publicised. Examples of this might be the Sahelian famine of the early 1970s or the Ethiopian famine of the early 1980s.

In examining development assistance the various objectives of the donors can be considered under three major categories: political, economic and humanitarian. The primary and secondary motives governing the provision of aid are shown in Table 5.1:

TABLE 5.1
Donor Motivation for Giving Aid

Political	Economic	Humanitarian
Internal Stability	Balance of Payments	Poverty Alleviation
Reward	Economic Growth	Promotion of Equity
Strategic Interests	Trade and Export Promotion	Disaster Relief
Liberalisation of a Regime		
Influence		

Most donors are influenced to varying degrees by all of the above, however there is a tendency for some interests to predominate. In the following sections we will discuss briefly how the motivations of the major donors are influenced by these factors. There is some overlap among the various classifications. For example, the promotion of economic growth can be for political objectives; balance of payments support may be to preserve stability in a country or to preserve trade links threatened by balance of payments problems. These motives will vary from donor to donor depending on how they perceive development assistance. They will also vary, even with a single donor, among various recipients of its aid depending upon the relationship with the recipient country.

In this study we are interested in determining the motives of the various donors to Bangladesh, which donors predominate, and whether and how they influence the quality and quantity of foreign aid. Finally, we will see how they have influenced the development of the country. We are also concerned with how foreign aid affects the standard of living of the poorest, and whether the country's dependence on foreign aid has increased or decreased.

Political: internal stability. Several countries have given aid to Bangladesh to promote political stability. India is the most obvious. The Indian intervention in the civil war in December 1971 was partially motivated by a belief that the conflict could deteriorate into anarchy with possible consequences for the surrounding Indian states. Relations with India since independence have usually been cordial on the surface, if not always close. India continues to suffer the same problems of instability in the states surrounding Bangladesh such as Assam and Tripura. This unrest is exacerbated by the presence of Bangladeshi refugees who have not returned to Bangladesh and whose residence dates from the War of Liberation. Others have migrated in search of greater

economic opportunity. The number of emigrants is in dispute and no accurate estimate exists.

There are also areas of continuing friction such as the dispute over the waters of the Ganges River. These are being diverted to Calcutta at the Farakka Barrage.⁵ Other areas of difficulty are the border dispute over the Muhurir Char, an island formed in the Bay of Bengal,⁶ and the boundary with Indian state of Tripura.⁷ For the most part, however, they are not sources of overt hostility. A stable and productive Bangladesh is in India's best interests. A repeat of the violence that erupted in 1971 forcing almost nine million refugees across the border into India⁸ would be more serious now than it was at the time.

The United States has an interest in preserving stability in the sub-continent. From an American perspective, although there was initial opposition to the formation of the country, once it had come into being there was a desire to see stability restored in order that other powers, the USSR being the most obvious, could not take advantage of the situation and to establish themselves as stronger influences in the region. It also made sense for the United States to seek to establish itself with a friendly regime in order to re-establish the influence it had lost with the reduction of Pakistan from a country spanning the sub-continent to simply a strategically placed Islamic country.

Political: reward. In more recent times the United States has provided aid as a reward for Bangladesh's continuing moderate stance and gradual return to a more capitalist economy. Such programmes as the American PL 480 Title III food aid programme are specifically designed to influence the domestic economic policies of developing countries and to reward them for taking policy decisions that support American views.

For example, in Bangladesh the elimination of the limitation on the number of cotton spindles in private cotton mills was part of the agreement covering the provision of cotton under the 1982 PL 480 Title III programme.⁹ This was specifically designed to promote the interests of the private sector and to enable it to expand. Thus, aid is used as a reward for following specific economic policies.

Political: strategic interests. While in context of global strategy Bangladesh is scarcely a front line player, its position is of strategic importance to the region, to India,¹⁰ the USSR,¹¹ the United States¹² and China.¹³ It is, though to a lesser extent, also

important to the United Kingdom in its role as an ally of the United States, as a previous colonial power and as focal point of the Commonwealth.

The strategic importance of the country to India is obvious. Relations between China and India have historically been troubled, but at least divided by a natural barrier, which admittedly is more psychological than real given today's technology of war. A large Chinese presence across the permeable Bangladesh/Indian border would probably be unacceptable, given the political volatility of the surrounding Indian states. India has been one of the major donors to Bangladesh.

The strategic perspective for the Americans is largely to counteract the Soviet presence and to continue to assert the influence that it lost with the break up of Pakistan. It is not, however, sufficient to qualify Bangladesh for Economic Support Fund assistance¹⁴ although it does have a modest military assistance programme.¹⁵ Officially American foreign aid to Bangladesh is justified as being humanitarian,¹⁶ but in reality strategic interests predominate.¹⁷

The USSR also has strategic interests in Bangladesh. It maintains a large diplomatic mission in Dhaka and has had a cultural centre in Chittagong, although the latter has been closed in recent years. Relations during the Mujib period were close, but the receipts from aid disappointing.¹⁸ Relations in the post-Mujib era have not always been amicable and in 1981 Bangladesh refused to allow the entry of "sophisticated electronic equipment, obviously for espionage purposes".¹⁹ From the Soviet perspective Bangladesh is an attractive target for penetration and influence both to counteract the American presence and potential Chinese influence in that part of the sub-continent, and to reinforce its position on the sub-continent.

With a multitude of parties*, at last count some six of them Communist, the field is fertile for the sowing of political dissent. In comparison with aid to other countries the USSR has been relatively generous in Bangladesh, not only during the Mujib regime when overtures were being made, but even during the latter part much more pro-American Zia era.**

*Estimated to be between 60 and 150, the political situation is fragmented at best and very fluid. The political parties of President Zia's time were called "Volkswagen" parties because they had room for a President and an Secretary in the front seats and two members in the back seat. During Ershad's attempts to form a viable political party these parties were, according to rather skeptical observers, transformed into "Honda" parties with room only for the President and Secretary.

**As an indication of the Soviet attitude towards aid the following is a brief example of their pragmatic approach. The writer,

The United Kingdom, although it has withdrawn its military presence east of Suez, continues to have strategic interests in the sub-continent. Its commercial interests are substantial and domestically a significant, and growing, proportion of the population of the United Kingdom has its origins in the sub-continent resulting in a sizable domestic interest group.

Political: influence. Two countries, India and the USSR, had specific objectives in Bangladesh during the period immediately following independence. India, having dealt a crippling blow to Pakistan by helping to split the country had an interest in ensuring that it consolidated its position in the immediate post-war era. Encouraging its evolution from the Islamic republic it had been as part of Pakistan to that of a secular state was one such objective. It was, therefore, in India's interests to ensure a rapid return to stability in order that the friendly regime of Sheikh Mujib could consolidate its position and return the country to both stability and moderate government that was sympathetic to India's interests.

The USSR saw an opportunity to build upon the linkages that had been started during the pre-liberation period through the diversion of Soviet, and other East bloc aid, from West Pakistan to the east wing of the country.²⁰ The development of close ties with Bangladesh would accomplish several objectives. Strong Soviet ties would keep both the Americans and the Chinese from establishing themselves, leaving the coast from Pakistan to Burma in the hands of countries sympathetic to Soviet interests. It also provided an excellent opportunity for the Soviets to establish themselves with a new nation almost without effort. Furthermore, the new Government of Bangladesh was particularly anxious to develop economic ties with the socialist countries of eastern Europe. This was indicated by the fact that Sheikh Mujib made his first state visit to the Soviet Union carrying "a big shopping list"²¹ only a month after taking office.*

In more recent years the attitude has shifted from hostility toward the United States, and with the change in leadership in 1975, toward closer, more amicable

having returned from the 1984 Annual aid Donor Meeting in Paris, was commiserating with a colleague who was a senior member of the Soviet Embassy. Somewhat facetiously the writer suggested that perhaps the only solution to the problems facing the country was a revolution. The Soviet official's reply was "My government could never support that. Not if it costs \$1.6 billion a year". The pledging by the donors in Paris had been reported in the local press at \$1,600 thousand.

*Sheikh Mujib actually visited the United Kingdom immediately upon his release from prison in West Pakistan, but this was before he had formally assumed the position of Prime Minister of the new country. It was, therefore, not considered a state visit.

relations. With this improvement the amount of aid has increased.²² The development of closer ties has resulted in cooler relations between the USSR and Bangladesh and a consequent reduction in the aid from the Soviet bloc.²³

Political: liberalisation. There are two aspects to liberalisation. One is the Government's attitude toward human rights and the rights of minorities. The other is the degree of legitimacy that the Government enjoys in really representing the views of the majority of the people.

Liberalisation, with respect to human rights or minorities, has not been a major theme of any donor to Bangladesh. The record in Bangladesh for tolerance of minorities is marred in two respects. The most serious accusation of deliberate oppression is of the hill tribes in the Chittagong Hill Tracts where it is alleged for example that:

The Bangladesh army and air force are conducting a campaign of unparalleled violence against the tribal minorities. They have been subjected to large scale evictions torture, rape and massacres -- 10,000 tribal people were killed in 1981 alone. . . .²⁴

There is no question that the land in the Chittagong hill Tracts presents a great temptation to the Government, considering that Bangladesh is one of the most heavily populated countries in the world, but the picture of repression is sketchy and, for the most part, based on anecdotal evidence that is open to question. That there have been conflicts between the armed forces and the Shanti Bahini freedom fighters is beyond question. There is, however, little evidence that there is any attempt at systematic extermination of tribal peoples as alleged in the quotation above. Rather, the conflict appears to be based on the ever-expanding population's almost insatiable demand for land.

Second, there is the treatment of the Biharis. These were muslims who emigrated to East Pakistan at the time of Partition, but who supported West Pakistan during the War of Liberation. Many are confined to camps and live under squalid conditions. They are often harassed by Bengalis. Some progress has been made over the years to resettle some of them in Pakistan, but the problem continues and they maintain a precarious existence in camps set aside for them.²⁵ Compared, however, to the communal violence in neighbouring parts of India and in Sri Lanka, the problems in Bangladesh are relatively small.

The treatment of political dissidents has at times been harsh and attracted world criticism. Various governments have imprisoned their opponents during times of

political crisis. There is little evidence that it has been the policy of the Government to hold great numbers of political dissidents for long periods of time. President Zia did incur international condemnation for the alleged execution of some 1143 men in the two months²⁶ following the mutiny of September 30, 1977.²⁷ This is the only instance of real repression by any regime, although as in other parts of the sub-continent, imprisonment or restriction of political opponents has not been uncommon.

Pressure for liberalisation has therefore not been great. Curiously none of the donors have made minority rights an issue and the only donor to openly examine the question of minority rights with respect to its aid programme has been Norway.²⁸ Their conclusions with respect to the Chittagong Hill Tracts were that there had been brutality on both sides and that the Government had done little to bring an end to the conflict.²⁹ There has, however, been pressure for the return to democratic government, primarily from the Americans. It has been alleged that the election in January 1979 held by President Zia was in direct response to American pressure.* S. Kamaluddin, correspondent for the Far Eastern Review in Dhaka, recounts:

Although Zia was committed to a general election, he is said to have been pressed by Western donor countries, especially the United States, to go ahead. A senior Bangladesh army officer recently told a visiting foreign journalist in Dacca: "The West, especially the US Congress, likes it if we can be called a democracy. It will make it easier for us to get aid. That is the main importance of the election."³⁰

In more recent years there has been pressure from the Americans for a return to a democratic form of government.** This should not necessarily be interpreted as liberalisation. The Ershad regime has not been noted either for excessive harshness nor for granting complete freedom. The referendum in 1985 and the parliamentary and Presidential elections of 1986, which were marked by violence and intimidation, render President Ershad's claim of a 94.1 per cent victory in the referendum to be less than credible. Nor is the reported turnout of 72 per cent of the registered voters any more credible.³¹ The continuing opposition that has followed the period we have considered

*During the period that the writer lived in Bangladesh it was often alleged that President Ershad's efforts to hold elections, elections that he wanted to be sure that he won, were the result of donor pressure. There was unquestionably pressure from the Americans, but with the exception of polite comments in speeches and interventions at the Aid Donor Meetings that everyone looked forward to the return to civilian rule, there was, to the writer's knowledge, no evident threat by donors to reduce aid or withhold aid until legitimate government was restored.

**This is more difficult to document but the American Ambassador is alleged to have called upon President Ershad several times to convince him to hold elections during 1985. Parliamentary Elections were eventually held in 1986.

here lends credence to this assertion. Nevertheless, a form of nominally democratic government has been preserved.

Donors have tended to simply avoid politically sensitive areas rather than to try to influence them. Carvell notes in his treatment of the Asian Development Bank's participation in a project in the Chittagong Hill Tracts, one of very few development projects in the area, that the Asian Development Bank has stood fast in response to criticism of its participation in the project in continuing their project. He adds "the ADB staff, however, does not intend to venture into the Hill Tracts [with new projects] again in the near future. . . ." and that in the "future any project in the Hill Tracts would be scrutinized very carefully by the [ADB] Board."³²

Economic: balance of payments. The economic motives for providing development assistance to countries can be roughly divided into the three categories shown in Table 5.1: balance of payments support, the promotion of growth and the promotion of trade. The less developed countries frequently suffer from severe balance of payments problems. The underlying reasons for this have been well documented. Over-reliance on a single export crop or primary product, which is subject to the fluctuations of the international marketplace, is one of the most common reasons for balance of payments difficulties. The developing country is often caught in a situation where it needs foreign exchange to finance capital equipment to diversify its economy, or intermediate products for its industrial or agriculture sector (e.g., fertiliser for agriculture or cloth for an export oriented garment industry), but is reliant on a crop such as cocoa or jute or a raw material such as copper. These commodities, while they are required in the world markets, are subject to the wide fluctuations in demand and price that characterise primary commodity markets. Over-dependence on a single item for foreign exchange leads to greater vulnerability to market forces than would be true if the range of exports were greater. Hence, countries with this type of economy are frequently subject to balance of payments difficulties.

Development projects required to provide the basic infrastructure to support development, such as dams or power generating stations, are "lumpy" with respect to their foreign exchange components, meaning that once the country has embarked on an investment of this type, the foreign exchange commitment is locked in. If construction of a capital project, such as a bridge, is halted halfway through, the entire investment is

lost. A fall in the price of the primary export may cause the country to cut back on other equally vital imports such as food, raw materials for new industry or spare parts, oil to meet energy needs. The alternative is to cut the imports needed to meet the requirements of the capital project and suffer the loss of the entire investment.

In order to encourage development and ease balance of payments problems, donor countries often choose to provide development assistance in the form of credits for overseas purchases from their own countries or, as in the case of Japan, the Federal Republic of Germany and the Netherlands, untied credits to purchase from any country.³³ The multilateral agencies also provide untied aid. In Bangladesh, which is seen to be a chronic food deficit country, food aid is frequently part of the aid package, particularly from the food-surplus countries. In addition there is the provision of commodity aid or credits provided at concessional rates of financing, i.e., programme aid. Balance of payments support, in one form or another, makes up a part of nearly every donor's inventory of development strategies. Sometimes the assistance is provided directly as a foreign aided capital project, part of whose justification is balance of payments support, but more often a donor may choose to supply aid in another form, such as programme, (commodities or lines of credit) or food aid.

Food aid deserves particular attention in Bangladesh. For food-surplus donor countries it is one of the means by which to transfer resources. The recipient's own foreign exchange resources are more fungible than the donor's contribution, which is often constrained by tying requirements or availability. This allows Bangladesh to free foreign exchange for the purchase of capital items of its own choosing or for the purchase of other types of imports which might not be permitted under an aid programme. Examples might be military equipment or luxury goods. Food aid has been one of the major forms of aid accounting for some 25.9 per cent of all aid disbursed between 1971 and 1985.³⁴

Economic: trade and export promotion. The trade motive of the donor is an important one. The developing world in 1984 already accounted for 39 per cent of the United States' merchandise exports (United Kingdom, 18 per cent; Japan, 37 per cent; Canada, 10 per cent; Australia, 41 per cent)³⁵

With respect to food, while China and the USSR remain much more important international markets for such countries as Australia, Canada and the United

States, three of the major food aid donors to Bangladesh, it is conceivable that at some time in the future, when the country has overcome the worst of its problems, that it may become a worthwhile market.

For example, in the area of food Bangladesh has imported wheat and rice commercially. Bangladesh was contracting to buy food commercially from the United States, Canada and Australia prior to the famine in 1974, but did not have sufficient foreign exchange to complete the transaction.³⁶ Wheat, the single largest food import in Bangladesh was not a major source of nutrition at independence accounting for only 9.5 per cent of consumption and 1.0 per cent of production in 1970/71.³⁷ With the growth of food aid wheat imports consumption patterns have changed and wheat by 1983/84 accounted for 16.5 per cent of consumption and 7.7 per cent of production in 1983/84.³⁸ Wheat has also been the most spectacular performer in the agricultural sector since independence in terms of production, growing at an average rate of 20.6 per cent from less than 60 thousand tons in 1967/68 to almost 1.2 million tons in 1983/84.³⁹ Furthermore, since domestic wheat production did not compete with the traditional rice crop, aman, it was an additional to the nation's food production. There is, however, a limiting factor, the availability of suitable land. It is unlikely that such spectacular growth can be sustained indefinitely and that domestic production will be able to meet future demand.

Since the demand has been created for wheat, the provision of food aid to Bangladesh is likely to continue for the foreseeable future as long as balance of payments problems continue. In the long term there may be a market for the West's wheat if the balance of payments situation improves.

While Bangladesh does not appear to be a particularly good prospect for future market development now, there are other countries where aid relationships have been gradually transformed into trading relationships. Despite the limitations of the commercial wheat market, suppliers still saw fit to impose a "usual marketing requirement" (UMR) on Bangladesh in 1985. Ironically this was at the suggestion of Canada the second largest bilateral food donor. The usual marketing requirement demanded that at least 100,000 tons be bought in the commercial market before food aid would be supplied by any of the participating countries.⁴⁰

In other areas trade has been an important factor. The United Kingdom, for example, has actively promoted the sale of tea processing equipment under its aid programme in Bangladesh in order to stave off competition from China which could supply at significantly below the British price. Canada has pursued similar efforts in tying trade to aid as Ehrhardt describes:

While Canada has recently shown more willingness to become involved in these areas [maintenance and training in the railway sector], it is still heavily oriented to rolling stock. In 1979, when Bangladesh awarded the procurement contract for 30 diesel locomotives financed by the Saudi Fund for Development to a Japanese rather than a Canadian firm, there was much displeasure in Canada. Thus in 1980, when Bangladesh requested financing for 50 additional locomotives, Canada indicated that it would be willing to fund 25 locomotives, but only if Bangladesh would find another source of funds for the other 25 and purchase all 50 from a Canadian firm.⁴¹ . . .¹⁴

¹⁴Interviews with CIDA officials, Ottawa, September 1982.

Humanitarian: disaster relief. Disaster relief is the rationale for aid which garners the most domestic support for foreign aid. In fact the general public often equate development with emergency relief. The response of most governments to emergencies is the provision of food aid, although other forms such as provision of transport, clothing, etc., may also be included.

Food aid has been among the most prominent forms of aid among the choices offered for emergency assistance. For virtually every disaster from the desertification of the Sahelian Region in Sub-Saharan Africa, to the Ethiopian drought, to the earthquakes in Managua and Mexico City, food aid is one of the first means by which aid is extended. From the perspective of the donor country it is also one of the easiest ways in which to mobilise public support. Thus, we see that commercial imperatives also affect donor responses response to disaster.

Interestingly, there is evidence that famines are rarely caused by shortages of food. They are rather the result of decreased purchasing power. Where well developed markets exist famine can be largely avoided by maintaining the purchasing power through targeted public works programmes. This obviates the need for the recipient government to handle large amounts of imported food and straining existing transportation capacity. The theory is that the natural market forces determine where the food goes, i.e., where purchasing power has fallen, food will flow to areas where viable markets still exist. When incomes are maintained, even at a reduced level, food will flow in to meet demand. This approach has been used by India in averting famines in Bihar in 1967 and

in Maharashtra in 1967 and in Bihar in 1973. In both cases cited by Professor Sen, food production was lower than other areas where famine has occurred, such as Ethiopia and the Sahel in the early 1970s.⁴² Two factors preclude the use of aid in the form of cash, first the commercial imperative and, second, the fear that cash is more susceptible to misuse.

Another characteristic of relief aid for humanitarian reasons is that it may even be given by donors that are antagonistic to the recipient, such as the American Government's aid to Bangladesh during the Mujib era, or to Ethiopia in the 1980s.⁴³

Humanitarian: poverty. Most of the early donors to provide assistance to Bangladesh did so for humanitarian reasons and to alleviate poverty. This aid was for the most part in direct response to the tragedy of the War of Liberation which had taken an estimated one million lives. Those donors which have provided aid for primarily humanitarian reasons are the Scandinavians, the Netherlands, West Germany,⁴⁴ Canada⁴⁵ and Australia⁴⁶, although in the latter two trade considerations clearly impinged. The fact that the aid was provided for humanitarian reasons does not, however, mean that it was aid that benefitted the poorest. It simply meant that poverty was the primary justification. This is a major criticism that Bauer has raised regarding the justification for such aid.⁴⁷ Aid is justified by poverty but delivered in such a way that it does little to alleviate it.

Humanitarian: equity. Humanitarian aid also goes beyond simple emergency relief for disasters and to alleviate poverty. With the emergence of a school of thought in the planning and implementation of development projects that emphasizes equity and the alleviation of poverty there developed, in the late 1960s and early 1970s, a belief that some portion of development assistance should be allocated to those who might suffer through the imposition of development policies that hurt some segments of the population.

More recently, with the increasing frequency of structural adjustment programmes for countries suffering balance of payments problems, the concern for equity has spread beyond the simple distribution of aid to other aspects associated with it, such as the impact of budget restraint on social programmes. This has resulted in conflict between such agencies as UNICEF, which have strong social objectives, and the International Monetary Fund and the World Bank, which have primarily economic growth oriented objectives. Most donors are caught in between because they are

members of the IMF and the World Bank, yet domestically they promote their aid as being designed to benefit the least endowed in recipient countries.

For example, it is one of the underlying rationales for the provision of food aid to Bangladesh that it is used to provide support for such programmes as Vulnerable Group Feeding or Food for Work which are designed to benefit the most needy elements of the society. Some project aid, such as support for rural development, is also justified on the basis of this rationale.

We can see from the foregoing that political stability has been one important factor to some donors providing aid to Bangladesh. The United States and the World Bank have rewarded Bangladesh for following specific economic policies aimed at restoring a free enterprise, free market system. A number of countries have also provided aid for strategic reasons in order to maintain a friendly presence in the region, but mainly it would appear to counteract the presence of others. Political influence has largely been linked to strategic aid rather than as a means to achieve any specific political ends.

Among the economic justifications, balance of payments support seems to predominate, being the rationale for both much of the food aid programme and the commodity aid. Some countries, however, particularly France and Japan, and to a lesser extent the United Kingdom, Canada and the Federal Republic of Germany, have allowed trading interests to dominate, or at least to influence, their programmes. Economic growth, as an objective, has been a factor in most donors' programmes it still being equated with successful development.

Under the humanitarian justification for aid, poverty, which is a rationale for providing aid in practically all assistance programmes, does not appear to be a major factor in the actual implementation, although it underpins almost all aid programmes. We will explore this aspect of foreign aid in Bangladesh later in the chapter. Most donor countries, and several non-traditional donors, responded to various disasters that have occurred over the last decade and a half, but such aid is sustained only by the traditional donors. Finally, equity does not appear to play an important part in the programmes of any donor except perhaps the Scandinavians. Norway in its commissioned review of human rights, Human Rights in Developing Countries, considers the issue of economic and social rights,⁴⁸ but because of administrative bottlenecks has still provided 68 per cent

of its aid in the form of commodities,⁴⁹ recognising all the while that this does not meet the ultimate objectives of Norwegian aid which call for targeting aid to specific groups and improving the lot of the poor.⁵⁰

As we will see in the section below on development administration, the aid provided by donors is not necessarily the aid requested. Furthermore, it is not necessarily the aid recommended by the World Bank, nor often even is it what is called for in the donors' own development objectives. The poor and the landless are not a potent political force in Bangladesh and so they do not have a significant say in the type of aid provided, even though they provide much of the rationale. We have shown how poverty has grown in Chapter IV, and how in various ways they are deprived of aid which is specifically targeted at them. In the next section we will show how the structure of the donor agencies fails to meet many of the requirements that would be necessary to ensure that even an acceptable percentage of aid gets to the very poorest.

Problems in Development Administration

The quality of the administration of aid is one of the key factors in how well development programmes are likely to achieve their goals. As Bauer comments:

Altogether, the mainstream advocacy of aid rarely addresses itself to actual operation, and notably not to its efficacy in terms of the proclaimed objectives. The advocates do not examine whether aid actually promotes development or improves the lot of the poor. Nor do they examine its adverse repercussions. . . .⁵¹

It is to the subject of the problems of the administration of overseas aid that we now turn.

Centralisation.^{*} One of the principal characteristics of aid agencies is the problem of over-centralisation. Most aid donors organise the delivery of development assistance in a highly centralised manner with most administrative and planning personnel based in the headquarters of the donor country. The most notable exception to this is USAID which has the majority of its personnel in the field and considerable delegated authority. Within policy guidelines most USAID missions can approve projects up to US\$ 20 million.⁵² Even the World Bank, largest of the donor agencies, identifies,

^{*}Several of the examples in the following section on centralisation draw upon the experience of CIDA. In all fairness the attitude about the necessity of decentralisation has changed among senior management inasmuch as the validity of a decentralised approach is accepted. Acceptance does not, however, mean implementation and such impediments as the attitude of the Department of External Affairs cited by Wyse remain, as does the reality that serving in the field does not further one's career.

appraises, supervises and evaluates projects with missions from Washington supplemented by small offices in the field.⁵³ In Bangladesh, a partial exception to this pattern, it maintains one of its largest overseas offices in a developing country, although it is still small by USAID standards.

The UNDP is another exception, however, being a multilateral donor with somewhat different perceptions of its responsibilities than most bilateral donors or international financial institutions, it is unique. The UNDP budget is comparable to that of small to medium-sized donors rather than to the budgets of the large donors, ranging from US\$ 20.6 million in 1977 to US\$ 28 million in 1981.⁵⁴ The UNDP has 67 per cent of its professional staff working overseas.⁵⁵ In Bangladesh it had a staff complement of about 250, not including the short-term experts who visited.⁵⁶

The most notable exception to the principle of centralisation exceptis excipiendis, USAID, is UNICEF, with a large geographically diffuse staff, some 36 per cent of whom are not located in Dhaka,⁵⁷ but in the field. Carvell compares the amount of money spent per professional field officer in UNICEF to that spent by CIDA in Bangladesh. UNICEF spent some US\$345,000 per professional staff in Dhaka as against some US\$ 20 million per Canadian development officer spent by CIDA.⁵⁸ It is small wonder then that UNICEF is leading the way in the introduction of small scale relevant technologies such as the US\$70 hand pump for irrigation cited by Jansen in Chapter III.⁵⁹

For example, the Canadian International Development Agency in 1981-82 had some 1000 people stationed at their headquarters in Hull and 54 field officers plus about another 50 employees of the Department of External Affairs devoting a part, or all, of their time to development administration.⁶⁰ While Canada has one of the most centralised aid organisations,⁶¹ the model is much the same as that used by other donors. The Dutch differ slightly in that the aid agency actually forms part of the Ministry of Foreign Affairs. The Scandinavian countries are organised in the same general manner as Canada, however, they tend to have somewhat more flexibility in hiring contract personnel to supplement their regular staff. The United Kingdom is similar. The Federal Republic of Germany also operates from the embassy administrative setup, although aid personnel from the Ministry of Economic Cooperation in the embassy represent the interests of several aid agencies in West Germany: the German Agency for Technical

Cooperation (GTZ); Kreditanstalt für Wiederaufbau (KW); etc. Japan is represented in Bangladesh both by the Overseas Economic Co-operation Fund (OECF) and the Japanese International Co-operation Agency (JICA) although all communication is through the embassy despite the fact that the latter maintain an office to look after administrative matters. USAID is the anomaly, with a large administration, functionally separate from the American Embassy although technically the AID director is responsible to the Ambassador, a relationship that has caused tension in more than one capital.

It is worth noting the obvious exception, USAID. USAID is highly decentralised and as a development agency it differs markedly from others. The significant characteristic that differentiates USAID from most other agencies is that its primary objective is promoting policy change, not providing resources. To that end much of its food aid is provided as a carrot for promoting change. In Bangladesh USAID's efforts at bringing about policy change would be rated as quite successful. This was evident in the privatisation of large areas of the public sector and, in particular the privatisation of much of the fertiliser distribution system. It remains to be seen whether this approach has more merit than simply providing resources.

The centralised approach to the administration of development assistance by donors has been brought about by several factors. There has always been a reluctance to delegate authority to field personnel. This is to an extent due to the historical development of the administration of development assistance programmes. The aid offices of most of the bilateral donors are run from their embassies or from offices attached to embassies and managed within the embassy's administrative system. The reason for this is that for the Western donors' aid has traditionally been the responsibility of the donor country's Ministry of Foreign Affairs.*

In some countries, such as Sweden and Canada, where independent agencies have been established, their reporting responsibility is still through the respective Ministry of Foreign Affairs. Even where there is a separate minister responsible for economic assistance, for example, in the United Kingdom under the Labour Government and in Canada under the Progressive Conservative Government, the Foreign Minister has retained ultimate responsibility and, in the field, the Embassy or High Commission has

*Based on the writer's experience in Bangladesh, of the bilateral donors, only USAID and JICA had separate offices, and in the case of the latter all official discussion were carried on by the Japanese Embassy.

remained the focal point of authority, implying that foreign policy and trade objectives predominate. This is clear for countries such as France, where trade personnel in the Embassy take care of aid interests, and Japan where foreign service officers handle most aid matters with the Government at the policy level. To a lesser extent the same holds for the British High Commission where the aid section is small compared to the other interests.

This approach makes sense from the point of view of the overall coordination of general foreign policy, but not from the perspective of the administration of complex development assistance programmes. It is significant that some embassies, the Danish, the Canadian, the Dutch prior to their reorganisation in 1984, and the Norwegian are largely staffed by aid personnel. Thus, development officers are trying to run a development programme through an administrative system which was designed to achieve something entirely different. The competition between foreign policy bureaucrats and development bureaucrats varies from Embassy to Embassy, but remains a major impediment to the effective delivery of aid.

The main complicating factor to the structure outlined above, apart from the conflict it engenders, has been the decreasing authority of embassies. With the development of modern communications, diplomatic missions are increasingly reliant upon instructions issued from their capitals and serious negotiations are carried on by senior officials who fly in and fly out. In fact the modern diplomat, unlike his predecessor, even a quarter of a century ago, has very little scope for initiative. Diplomacy is increasingly carried out in the style that Henry Kissinger popularised. The Embassy's, or High Commission's, role is to provide the background, the administrative backup and the entertainment. Traditional diplomats rarely take substantive decisions. This lack of scope for independent action, even within an agreed upon foreign policy framework, has been transferred to the modern aid administrator, despite the fact that the two jobs share little in common; the diplomat's being to report upon events and to communicate his country's views, while the aid administrator's is to design and implement, in consort with his counterpart in the relevant ministry, an activity designed to contribute to development.

There is, therefore, a fundamental conflict between the diplomatic approach, highly dependent on guidance from headquarters, essentially a risk minimising role, and

that of the aid administrator who is engaged in the high-risk pastime of trying to introduce new concepts into a situation with linguistic and cultural barriers which calls for on-the-spot assessment and action, usually without the guidance of some headquarters body.*

The World Bank is fairly typical of the centralised approach. As Mason and Asher recount in describing the administration of the World Bank in the early 1970s:

The Bank is a highly centralised institution, not only in its headquarters operations but also with respect to its overseas activities. All stages of the project cycle are managed from Washington, and field operations are carried on by short-term missions. Except in one or two cases, country economic reports are prepared in Washington, again with the help of short-term missions to the field. Even in the countries and areas in which the Bank has permanent representatives, headquarters holds these representatives in most cases on a very short leash. . . . Most country missions are small--one- or two-man affairs--and their functions are limited to economic reporting and to preliminary project identification. . . .

It should be obvious that certain segments of Bank operations can be more effectively performed in the field than in Washington, provided that the field mission is well staffed--an important proviso. . . .⁶²

Finally, even Norway, a donor country with much demonstrated concern for the social sectors, had very limited resources in the field to administer their aid programme:

Until recently, Norway has had very little contact with the realities of Bangladesh. Until the summer of 1984, NORAD's Representation in Dhaka consisted of a Resident Representative, an Assistant Res. Rep., a Bangladesh professional dealing with women's projects and a Norwegian

*Three examples of this headquarters oriented approach to the relations between the two countries during the writer's tour in Bangladesh come to mind.

The first was the call for negotiations by the Government of Canada under the Multi-Fibre Agreement (MFA) in 1984. The Canadian High Commission was instructed to advise the Government of Bangladesh that they were being called to negotiations for market disruption in the Canadian economy. There was no consultation with the Post whatsoever. In fact when the High Commissioner pointed out the inconsistency of curbing the exports of a country that Canada was assisting with balance of payments support, he was advised in so many words that the matter did not concern the Post.

A year later when Canada appeared to be on the point of imposing quotas on Bangladesh the response was the same. Ironically, they intended to impose the quota immediately following a devastating cyclone which had killed an estimated 10,000 people along the coast. What stopped them was a speech given in Calgary by Bernard Wood, the (then) Director of the North-South Institute, which had researched the cost to the Canadian economy and the Canadian taxpayer of Canada's restrictive policy on garment imports. He said in part "I am ashamed to be a Canadian" with respect to the forthcoming imposition of quotas. The speech was highlighted in an editorial by the Globe and Mail and the Government relented.

A second example was the imposition of a "usual marketing requirement" (UMR) on Bangladesh in the spring of 1985. To that date Bangladesh had been exempted from the requirement that it satisfy a UMR prior to the receipt of food aid. (The UMR requires that a country purchase, or show that it intends to purchase, a set amount in the commercial market prior to the releasing of food aid. The purpose is to ensure that traditional markets are not disrupted by food aid.) In this case Canada instigated the idea of imposing a UMR on Bangladesh of some 600 thousand tons. Not only were the Post not consulted, they were not even notified, and learned about it from the American Embassy which was trying to formulate a consistent donor position. Once again the views of the Post were not welcomed, particularly so since they showed that the headquarters office did not even have correct import figures for commercial imports to Bangladesh.

These two examples, it should be stressed, were not CIDA/Post communications, but rather from other departments. They do exemplify the very low priority that is put on diplomats' views in the field.

A third example involves the ambassador of a European country who was involved in several *démarches* with the Government of Bangladesh. He was unable to make any statements without clearance from his Foreign Ministry in Europe. The result was that most statements during the series of discussions were drafted and presented by the more junior head of another aid agency.

administrative secretary. Officials from the Ministry of development Cooperation in Oslo visit Bangladesh every second year . . .⁶³

In addition to lack of enthusiasm for decentralisation on the part of donor governments, and most other aid agencies, there is the pressure on development agencies to curtail the cost of the administration of development assistance. This last factor is because most aid agencies, whether they are part of their respective Ministry of Foreign Affairs or are semi-autonomous, still form a part of the donor's civil service. As such they are subject to the same constraints on growth as the rest of the civil service. Governments frequently go through cost cutting exercises. Aid agencies, without a domestic constituency who might complain about a deterioration in service to a member of parliament, are particularly vulnerable to the imposition of constraints on person-years and cutbacks in personnel.

For example, Peter Wyse in Canadian Foreign Aid in the 1970s: An Organizational Audit writes:

Yet CIDA's centralized structure was no accident. The Department of External Affairs opposed initiatives to place more aid officers overseas. It did not want to see senior aid officers overseas, since they would have outranked its own diplomats. It did not want aid offices in countries where Canada did not have embassies or high commissions, since such offices would have been removed from direct External Affairs control. . .

CIDA itself was not an active proponent of decentralized administration. When CIDA's senior managers carried out a major reorganization in 1977, decentralization was the 55th of 56 issues dealt with.²³ Undoubtedly, for senior executives, decentralization meant a dissolution of headquarters empires. Senior executives feared the consequences of a decentralized organization in which many overseas officers would be outside their effective control.⁶⁴

23. CIDA, Corporate Review (Ottawa: CIDA, 1977), p. 8.

The effort to decentralise such agencies as the Canadian International Development Agency, has in the past been thwarted by the cadre of traditional diplomats who fear that too much delegated authority to heads of aid will diminish their importance, indeed their relevance, in countries with large aid programmes.⁶⁵ In the words of one head of post "We don't want to duplicate the American situation where the USAID Director has more power than the Ambassador".⁶⁶ Again to cite Wyse discussing the situation in the Canadian International Development Agency:

Project team members were overworked because Treasury Board (which is responsible for controlling the size of the civil service and the government departments within it) was under pressure to limit the size of the civil service. CIDA, a government agency without a high domestic profile, was an easy place to start. Junior officers were employed by project teams because of Treasury Board's unwillingness to allocate senior positions to CIDA. In effect, the Treasury Board treated CIDA like other government departments in order to apply standard administrative concepts, regulations and procedures across the civil service. In doing so, it failed to take into account certain

aspects of CIDA that were special: its large budget; its complicated programs and projects; and its need to work through sovereign foreign governments.⁶⁷

The result of all the above factors is that, even including headquarters staff, most aid programmes have very few administrators in relation to the amount of money being spent, they are overstretched and unable to supervise adequately a wide range of projects, geographically scattered and involved in different sectors.

Morss, quoted in Rondinelli, describes the success of projects in which quick action has been able to be taken with the intervention of field personnel to correct project problems when compared to those that have been allowed to continue without modification despite encountering problems.⁶⁸ The latter situation usually prevails when projects are the product of an overwhelmingly centralised aid administration that is too far away and too rigid to respond or with too little ability and knowledge to intervene.

Programme planning and supervision. The decentralised nature of the aid administration in turn gives rise to two factors which affect the efficacy with which donors' programmes and projects can be carried out. Planning is usually done at headquarters thousands of miles from where the activity will eventually be implemented. Supervision, meaning supervision with the power to take action to correct problems, also resides far away or is carried out by quick visits of experts. Before proceeding it is worthwhile to consider how programmes are decided upon. Rondinelli describes the evolution of planning for development:

The methods of planning, analysis and management introduced during the 1960s and 1970s, and which still dominate the procedures of most international organizations and governments in developing countries, however, were not primarily concerned with flexibility, responsiveness and learning. They were more concerned with efficiency and control. Systems approaches were introduced not only because they were compatible with macro-economic concepts of development prevalent during the 1950s and 1960s, but also because they were perceived as effective methods of reducing uncertainty and increasing the influence of technocrats. Ironically, politicians and administrators embraced control-oriented planning and management techniques that were either ineffective or inherently incapable of reducing uncertainty at a time when the recognition that development was an uncertain process was becoming widespread.⁶⁹

In the foregoing Rondinelli appears to restrict his observations to international donors and recipient governments. The same observation can be made, however, about the bilateral donors. The international agencies draw at least some of their staff from the former and the philosophical approaches toward management are not fundamentally different.

Wyse comments on the Canadian approach to decision-making in the determination of programmes in recipient countries:

... CIDA developed a complicated bureaucratic process which was devoid of substance, yet effectively masked the failing. The process was called the "country program review cycle," and consisted of the following elements: preparation of "country program review" formats by central planners; writing of "country program review" documents by desk officers⁵ according to the formats; evaluation of the "country program review" documents by senior management; and subsequent selection of aid recipients.*

The country program review formats gave CIDA's managers an opportunity to solicit information essential for the selection of aid recipient countries, but this opportunity was not taken up. Instead of focussing on a few key variables in the development process, they sought information on a full range of subjects pertaining to development: economics, politics, sociology. Inevitably, the country program review documents resulting from the formats were long, comprehensive document providing far too much information for senior managers to digest and translate into meaningful decisions. . . .

Not only were the country program review documents too long to be used, they were also biased. The document for a particular country was prepared either by desk officers who worked with the country or who would be working with the country if it became an aid recipient. . . . As a result, their country program review documents tended to be apologies for the countries under consideration, not critical appraisals, and their value as a basis for decisions was undermined.

In addition, many documents were prepared by desk officers with little first-hand experience of the countries they were writing about. They tended to rely on secondary sources such as the World Bank reports and official government documents of the recipient country.^{70**}

⁵ Desk officers worked in Ottawa and were responsible for specific Third World countries; thus, the officers on the Bangladesh desk dealt with Bangladesh from their positions in Ottawa.

Wyse comments further on the CIDA experience in project planning and management:

Because of CIDA's centralized structure and its inadequate travel budgets, project teams were forced to rely almost totally on consultants to appraise, design, implement, monitor and evaluate projects. . . . Consultants were out to make money; therefore they had to be controlled. Unfortunately the project teams were not in a position to exercise fair control; based in Ottawa, they had difficulty knowing how much work was involved in particular projects. Often the consultants were not familiar with CIDA's systems, idiosyncrasies, and policies, and therefore made recommendations that could not be implemented. But just as often they were dispatched into complex Third World environments on short-term missions and expected to produce workable solutions on the basis of superficial, preliminary impressions.⁷¹

*In fact Wyse is describing the system as it worked in the mid-1970s. As it evolved into the 1980s the process changed from one to determine the eligibility of countries to one whereby the amount allocated to eligible countries was decided. The actual eligibility was decided by an interdepartmental committee which then recommended the list to Cabinet based on three different levels of eligibility: core countries; category II countries which were limited to a little bilateral assistance and support from NGOs or through the Industrial Cooperation Programme and; Category III countries which were not eligible for bilateral funding but for which it was permissible, but not encouraged, to give funds through NGOs and Industrial Cooperation. The process was so complicated and lengthy, taking, as it did, into consideration the views of all Government departments and any particular interests of cabinet members and senior bureaucrats.

Very much the same procedure is now used to raise or lower the allocation of funding (called the indicative planning figure [IPF]) for individual core countries, that are already eligible for aid. Countries can lose their eligibility through the process, a subsequent recommendation to cabinet, but countries gaining eligibility usually do so through political pressure and subsequent recommendation to cabinet. In other words it was a system so cumbersome that it ceased to work at all, the last review having taken place in the late 1970s! Every change was an exception. Under the Progressive Conservative Government which came to power in 1984 the system was changed again following a review by a Parliamentary Committee, but it remains cumbersome.

**This has changed somewhat in recent years with the advent of more liberal travel budgets, as administrative expenses increasingly were charged to official development assistance, but in 1988 the general approach was much the same generally even if there was more scope for travel by desk officers.

In another example, the World Bank experience also follows much the same course. Initially in the 1950s the World Bank found that the choice and quality of projects that was being offered for financing was disappointing. The Bank therefore took a more proactive role in the selection and preparation of projects.⁷² Tendler describes the process as being similar to the backward integration of industry. The Bank had an inadequate supply of projects so it produced them itself.⁷³

Despite the protestations of donors that aid is given on a purely responsive basis this model, in which a highly centralised organisation decides which projects to support in virtual isolation from the recipients, holds for other agencies as well. The consequence of this approach is that aid projects are frequently not suited to the environment in which they are placed. An added factor is that the field personnel of the aid agencies and the local managers, who have in the end to implement the projects long after the aid funds have been approved, were scarcely involved in the planning process at all. It is, therefore, little wonder that projects frequently do not achieve the ends which they were designed to, or that they sometimes achieve ends which they were never designed to.

Programme supervision is another area which is bound to suffer when project management is highly centralised. Almost by definition field strength is minimised in a development assistance system that is highly centralised. In contrast the highly decentralised USAID Mission in 1986 in Dhaka, more than 50 American officers and support personnel and more than 100 locally engaged staff. In Washington they had 2 to 3 officers and support staff. They managed programmes' disbursing between US\$150 and US\$190 million per annum.⁷⁴

The CIDA programme, administered through the Canadian High Commission, had 5 Canada-based staff and 5 locally engaged staff in Dhaka⁷⁵ to manage a programme disbursing about half the American amount. In Ottawa there was a staff of 10 Officers and 5 support staff. The British High Commission, administering a highly centralised aid programme for Overseas Development Administration, had 3 British staff and only a few locally engaged staff. They managed a programme one third the size of the American

*This estimate is based on the personal knowledge of the writer about the structure of USAID operations in Dhaka.

**This is based on the personal knowledge of the writer who managed the programme for almost 4 years.

programme. The problem was similar in missions such as that of the Federal Republic of Germany, Norway, Sweden and the Netherlands.

The problem of over-centralisation has another effect. The under-staffing of field offices so that multi-million dollar programmes are administered by offices staffed by one or two development officers. They are sometimes quite junior and are often supervised by embassy personnel with little or no administrative or planning experience. Often the supervisors have no development experience at all. As Wyse notes on the general staffing of CIDA positions:

. . . Fifty percent of the overseas staff came from External Affairs and many were inexperienced in development and aid administration; the rest came primarily from CIDA's middle (not senior) ranks. Senior executives had relatively little control over hiring, firing, and salaries within the government staffing system. For middle managers decentralization would have required that they move overseas. Such overseas postings involved personal costs: . . .²⁴ At the same time, promotions and career advancement depended on recognition by senior executives in Ottawa, and the nature of the system therefore favoured the managers who remained at home.^{75*}

24. The aid programs in Botswana, Lesotho and Swaziland were handled out of the Canadian Embassy in Pretoria, South Africa. The developed nature of South Africa for the white population made the Pretoria aid posting one of the more sought after postings.^{**}

In an anecdotal account of the attitudes at the World Bank Watson comes to much the same conclusion:

As a workplace, the Bank was like any large company in that it was run by white middle-aged men with a few women or people from the Third World in senior positions. Some people were good at their jobs, others did little . . . Rumour had it that the Bank never fired its staff; instead it sent them to work in the Personnel Department or to an overseas posting. Most Bank staff are in Washington and no one apparently wanted to be posted overseas. It was spoken of as a term of exile in an uncomfortable place.⁷⁶

It is scarcely surprising then that Payer can cite an instance where nine successive missions to a project failed to discover, let alone correct, a fundamental design fault in a reservoir for an irrigation project,⁷⁷ nor that Wyse can state with confidence that only a few project failures came to light and that:

. . . Project choices were often made without adequate understanding of project opportunities; that few projects proceeded as planned, while many developed behind schedule and over budget; that predictable events arrived unforeseen and undermined projects; that project expectations were usually unrealistic; that consultants, contractors and technical assistance advisors, and suppliers frequently performed poorly; that in every project, something always seemed to go wrong.⁷⁸

*This fact remains true today. Despite pronouncements by CIDA executives that overseas service would be a requirement for advancement, it has been watered down so that short trips taken by officers are considered the equivalent of overseas service.

**The writer disagrees with Wyse on this point having worked on the Botswana, Lesotho and Swaziland Programme from 1975 to 1979 as Senior Planning Officer and having been offered the post. The first incumbent certainly did not choose to go because of the amenities and in fact later served for some years in Swaziland and in China with an NGO. Others may well have found the amenities inviting.

The results are particularly evident in Bangladesh as outlined in Chapter III. There is a lack of appreciation on the part of the donors of how dependent the Government has become on the proceeds from the sale of food and commodities to meet its day to day budgetary needs. The impact of the Food Distribution System on agricultural growth is ignored. More difficult areas to programme in such sectors as agriculture, rural development, health and education remain under-financed by comparison with the more traditional sectors of donor support, energy and modern transportation. Yet the system of decentralised aid administration persists.

Tying, procurement and other administrative procedures. Another problem in the administration of aid is the regulations that donor countries impose on the purchase of goods and services for projects and programmes. Tying is the requirement that the goods, or some set proportion thereof, financed with aid funds must be bought in the donor country. The practice of tying has been criticised in most donor programmes. It originates from the trade justification for aid and the belief that public support will be lost if a donor government is not seen to be benefitting its own constituency. It is criticised on the basis of forcing recipient countries to accept solutions that are both more expensive and less appropriate than available alternatives.⁷⁹ It is also criticised on the basis of making procurement needlessly complex and for forcing inappropriate technologies on the recipient.

The most obvious example of this is the continuing provision of wheat, by wheat surplus countries rather than rice as food aid. This has resulted, in a level of demand that already exceeds the country's capacity to supply. This can only result in the long term in a balance of payments situation that continues to worsen.

Cultural factors. An additional item which militates against the effective design and implementation of aid programmes is the socio-economic background of the people administering foreign aid in donor countries. Bureaucrats, whether they come from middle-class backgrounds or not, have achieved a place in the middle-class by the time they become aid administrators. They come from urbanised societies.⁸⁰ It is difficult for them to understand or identify with the marginal farmer or landless peasant. A small number of people in the aid agencies have studied such societies and lived in villages. The proportion, when compared to the number of administrators, is very small indeed. The same observation can be made about the consultants, contractors and experts

who work in developing countries. A small proportion may have been volunteers or missionaries, but even this is no guarantee that they can span the economic and cultural gulf that stands between them and a subsistence peasant farmer. Volunteers and missionaries usually come from middle class backgrounds also.⁸¹ Indeed many find it difficult to even associate with indigenous people of their own socio-economic background, or the equivalent, in a country such as Bangladesh. Social clubs and special privileges cushion the experience of living in a developing country. Bangladesh is a particularly difficult country to work in given its grinding poverty, different religion and language. It is really no surprise then that administrators have difficulty in designing and mounting programmes designed to alleviate a poverty they scarcely understand themselves.

Measuring the "Appropriation" of Aid: A Framework for Analysis

Measuring the amount of aid that has been "appropriated" by the upper classes with any precision on an ex post facto basis is a difficult and imprecise task. Measurement of almost any phenomena in Bangladesh which relies upon statistical data is bound to be inexact. Furthermore, there is no way of avoiding a subjective assessment of the evidence available although if the proportion of targeted aid were built into project evaluation frameworks prior to implementation the task would yield more accurate results.

Various writers have estimated the amount of aid that is diverted to the wealthy. Farouk, for example, estimates the total benefit to the poor as being no more than 3 per cent of the development budget. He does this on the basis of the size of the allocations to the Rural Works and the Food for Work Programmes both of which are specifically targeted at the poor. He concludes that this is an indication of how much the poor, who are after all the justification for aid, would suffer if it were to be cut, i.e. they would scarcely suffer at all.⁸²

We propose a crude ex post facto analysis of development projects. It will depend to a large extent on subjective estimates of the amount of aid that reaches the poor, although, as we have said, the establishment of targeting criteria prior to implementation could make the model a useful tool in evaluating the impact of

development programmes. Another shortcoming of the model is that it measures only the short term impact of aid on the poorest. It might be argued that there are long term benefits to be gained from some projects. This is true, however, the net present value of such benefits would be comparatively small taking into consideration the average time it takes a project to become fully operational and start generating benefits. Finally, to maintain consistency with other data sources used Gross Domestic Product was used as a proxy for National Income. We believe that while not absolutely accurate its substitution for National Income will have only negligible effect on the totals and no effect on the trends discussed.

This assessment is not fundamental to the arguments presented in this study; rather it provides us with an indication of the magnitude of the problem and a framework. An accurate analysis would have to be designed in advance and integrated with the regular monitoring during the implementation stage. There are bound to be areas of disagreement. As we have seen the World Bank and the Government disagree about statistics as fundamental, for example, as the GNP by a factor of almost 20 per cent for the Fiscal Year 1983/84.⁸³

What we propose is to examine a range of development projects and to estimate the proportion of the project that is likely to benefit the poor. The remainder will be the aid that has been "appropriated" plus the aid which was never intended to benefit the poor.*

The methodology we shall adopt here shall be as follows:

1. We examine separately each of the three types of aid: food aid, programme aid and project aid. We estimate how much aid in each project is targeted toward the poor or how much is likely to reach them directly or indirectly. This is termed the Target Factor. We use the List of Aid Worthy Projects: 1984⁸⁴ as a proxy for the development programme in its entirety. It consists of 183 projects requested by the government for financing by the donors in all sectors in which aid might be provided. Five projects were omitted, 3 concerning religion and 2 concerned with sports, as being unlikely to be attractive to typical donors, although they might hold some attraction for non-traditional donors. Each project is examined and the results summarised giving an estimate for how much aid in each sector is likely is likely to

*The model, with adaptations, was used in March 1989 by consultants at CIDA to try to estimate the amount of aid that reaches the poor. In discussions we concluded that, while it served as a useful guide, the construction of a full scale real model to monitor the whole aid programme was probably not likely due to the time and amount of data that would have to be maintained by CIDA to keep the it current. Given the difficulty CIDA has in maintaining even a rudimentary project monitoring system, the level of record keeping was probably beyond them. In contrast, the World Bank could probably manage such a monitoring system if there was the interest.

reach the poor. This gives us an index of targeted aid for each sector termed the Target Factor. When this is weighted with the actual allocation of aid the resultant is the Target Index.

2. We define the poor, for whom targeted aid is meant, as that proportion of the population living beneath the poverty line. In Cases I and II we assume that it is 60 per cent, a figure somewhat lower than FAO estimates and closer to Ahmed and Hossain's estimates.⁸⁵ In Case III we assume it is 80 per cent
3. The proceeds from commodity aid are used to finance the Annual Development Plan, therefore, proceeds are allocated to the various sectors in the same proportion as the Annual Development Plan.
4. Food aid is somewhat more complex since it takes several forms. The food sold through statutory rationing and priority categories is initially allocated a targeting factor of 0.0 per cent in Case I reflecting that it benefits a fixed income, urban population. Food sold through the modified ration system is allocated a targeting factor of 33 per cent, a rough approximation of the subsidy element (see Table 3.5). Food aid distributed through the Relief, Vulnerable Group Feeding and Food for Work programmes is allocated an 80 per cent targeting factor representing a conservative estimate of how much is "appropriated". Marketing Operations and Open Market Sales are allocated a targeting factor of 0.0 per cent. In Cases II and III it is accorded the targeting factor of the ADP.
5. Project aid is allocated among the sectors in the same proportion as it has been historically as detailed in the Flow of External Resources.
6. Using the split between investment and non-investment expenditure as calculated from the Annual Development Plan⁸⁶ and incremental capital output ratio (ICOR) of 2.5⁸⁷ we then calculate the addition to national income derived from aid for both groups.
7. The contribution to each group is then distributed evenly throughout the group, i.e., that allocated to those below the poverty line is distributed among the bottom 60 per cent and that allocated to those above the poverty line is allocated to the top 40 per cent for Cases I and II and among the bottom 80 per cent and the top 20 per cent in Case III.
8. Starting with the known distribution of income for 1973/74 we subtract that amount which our model predicts is attributable to foreign aid. The same process is then applied to the predicted 1974/75, 1975/76 and 1976/77 distribution. The result is then compared to the actual known 1976/77 distribution of income and resultant Gini Coefficient.
9. Finally we vary some of the assumptions in order to see the effect that this has on the results.

It should be clear from the foregoing that we will not arrive at a specific number which will give us a quantitative answer as to the effectiveness of aid in reaching the poor. Rather what we expect will be an order of magnitude within which we can estimate the impact on poverty from changes in the allocation of aid from one sector to another and from one form of aid to another. We expect also to gain some appreciation of the effects of changes in various assumptions.

In Table 5.2 we develop the Target Factor of the expected allocation of aid to the poor based on analysis of the projects that the Government has developed for financing and published in the "List of Aid Worthy Projects".

In Tables 5.3, 5.4 and 5.5, using the weights developed in Table 5.2 and the estimates of aid targeted the amount of foreign aid likely to benefit the poor, we calculate the weights for food aid, commodity aid and project aid.

In some sectors it will be easy to come to a conclusion as to what portion of aid or of the ADP is likely to reach the poor, but in other sectors the selection of weights will be more contentious. In order to give an accurate estimate it would be necessary to evaluate the amount "appropriated" by Government, corruption and the amount which was targeted at more well off segments of society for every project in the ADP and for every aid project. Given the scarcity of accurate information, the fact that this question does not even form a requisite part of most project evaluations, particularly in the traditional infrastructure oriented sectors, it is doubtful whether we would be much the wiser at the end of such a valuation. The very simple methodology could, however, be incorporated into future programme designs in order that projects could be assessed on the share they contribute to the poorer elements of society.

In Table 5.2 the Target Factor is the estimated percentage of aid in each particular sector that reaches the poor from the financing of the Annual Development Plan. The first column is our estimate from the analysis of 178 projects from the total of 183 in the "List of Aid Worthy Projects: 1984". Five projects in the religious affairs sector and the area of sports and culture were not included since neither were unlikely to be considered by most donors.

It should be noted that for some types of aid such as cyclone reconstruction and population which are targeted at people living in vulnerable areas we have assumed that 100 per cent reaches the poor. It should also be noted that we have not made any

specific estimate of the amounts "appropriated" through corruption because of the difficulty in substantiating any particular figure despite the cases documented in Chapter III. It might be assumed that it will be "appropriated" from those least able to protect their share and hence most would come from that portion allocated to the poorest. As we have seen from the research carried out by BRAC and documented in The Net at least some 20 per cent is "appropriated" either through corruption or use for other purposes. This will have to serve as a rough approximation of the case with corruption included. From our examples this would appear to be a credible figure.*

The Target Factor was developed for each sector from an analysis of 178 "aid worthy" projects in the List of Aid Worthy Projects; 1984. We reviewed all the projects listed except 5 projects under religious affairs and culture and sports. There were 178 projects worth some \$7,976.9 million. We have used the total value of projects in each sector to calculate the Target Factor which was then used to calculate the Target Index of the Annual Development Plan, and the allocation of project aid. The following are the classes of project included:

1. 17 projects in the agriculture sector worth \$1,486.9 million;
2. 9 projects in rural development worth \$137.6 million;
3. 14 projects in irrigation worth \$702.3 million;
4. 24 projects in the industrial sector worth \$1,322.9 million;
5. 16 projects in the power sector worth 1,775.6 million;
6. 10 projects in the natural resources sector worth \$668.4 million;
7. 3 science research projects worth \$24.2 million;
8. 9 communications projects worth \$106.1 million;
9. 4 media projects worth \$7.5 million;
10. 15 physical planning projects worth \$133.7 million;
11. 18 transportation projects worth \$765.2 million;
12. 12 education projects worth \$371.8 million;
13. 1 public administration project worth \$1.1 million;
14. 16 health projects worth \$79.7 million;
15. 3 population projects worth \$51.3 million;

*In the writer's experience the figure generally accepted by CIDA management, but not formally acknowledged, was about 20 per cent of all food aid to Bangladesh was diverted through corruption.

16. 4 social welfare projects worth \$9.4 million;
17. 2 manpower projects worth \$9.6 million, and;
18. 1 government decentralisation project worth \$200.0 million.

Agriculture: Projects in the agriculture/rural development/irrigation sector, which has accounted for 49.6 per cent of GDP at market prices from 1973 to 1985,⁸⁸ have a total value of 19.6 per cent of the total value of projects in our proxy.⁸⁹ If we also compare this with the total value of actual project aid to this sector from 1973 to 1985 we find that it is very similar at 20.9 per cent.⁹⁰

Crops: Within the sector there were nine projects in the crop sub-sector: four are concerned with the construction or rehabilitation of food storage facilities, one with the modernisation of a flour and feed mill, one with the rehabilitation of the food transport system, one with the reorganisation of the food directorate, one with the establishment of agricultural sectors centres for the supply of inputs such as fertiliser and HYV seed which were designed to meet the needs of the cooperative system which is dominated by the wealthier elements of the rural community. The last, and largest, was for the importation and distribution of fertiliser. Construction projects are unlikely to benefit the very poor even as a source of employment, since the poor are generally unskilled except at basic agriculture and associated activities. Some benefit might possibly be derived by the poorest from the fertiliser project which accounts for the bulk of the value of the projects in the crop sector, however, as de Vylder and others have pointed out the utilisation of inputs, such as high yielding varieties, irrigation and fertiliser on a per acre basis is far lower for small farms than for large⁹¹ and we also know that share croppers are among the lowest users of fertiliser and other inputs because they incur the expense, but the owner derives most of the profit.⁹² Furthermore, if we recall that about 40 per cent of the population are functionally landless so that even small landholders are relatively well off. We therefore allocate a nominal 20 per cent of the fertiliser portion in the crop sector to the poorest. In the agriculture sector there are also two forestry projects, but both are heavily capital intensive providing no benefit to the poorest and possibly even having a negative employment effect. We allocate a Target Factor 0.

Two fisheries projects are listed, one establishing wholesale markets and one monitoring catches. Considering that Bangladesh has one of the lowest per capita

consumption rates of animal protein in the world, at 3.62 seers per person per annum⁹³ (1 seer = 0.9331 kg.), it is unlikely that wholesale markets would do much to benefit the poorest.

Finally in the livestock sector we find only one project of the four listed, the introduction of village poultry, that would benefit the poorest. The others: feed and fodder production, veterinary dispensaries, artificial insemination were unlikely to benefit any except the better off farmers or the bureaucracy.

Our conclusion is that the poor farmer or landless sharecropper does not derive any benefit from any of the projects listed in the Government's list of selected projects except from the poultry project which represented 0.05 per cent of all the agricultural projects or 0.7 per cent of the agriculture projects less the provision of fertiliser. Target Factor, 0.1.

Rural Development: A review of nine rural development projects concluded that five of the nine worth 57.4 per cent on the total value of all the rural developments would directly benefit the poor. These were training programmes for landless people such as mechanics, small scale irrigation projects, two targeted income generation programmes and a rural roads project. Those judged to not contribute were such things as training of thana (upazila) officers and produce marketing which would likely be of benefit to the better off farmers who are members of the co-operative system, which it is known to benefit largely the relatively wealthy farmer. We thus calculate a value of 57.4 per cent to the Target Factor.

Irrigation: In the irrigation sector we assumed that the irrigation projects proposed in themselves were unlikely to benefit the poorest since they tended to be capital intensive. It has been shown in Chapter III how rural elites tend to dominate the irrigation sector. We assume, however, that they would benefit from drainage and flood protection so that out of the 14 projects listed five had large drainage and flood protection components representing some 21.7 per cent of the proposed investment. If we assign 50 per cent of the benefit to the poor this will give us a Target Factor of 10.8 per cent for the irrigation sector.

Industry: In the industrial sector, of the eighteen projects listed, six were proposed by the Bangladesh Small Cottage Industries Corporation are aimed at small businessmen. We include them as potentially benefiting the poor simply because they are

aimed at small businessmen and might provide employment for the unskilled poor. Such projects as the rehabilitation of a paper mill, construction of a soda ash factory and a polyester plant are excluded. The Zia Fertiliser Factory is also excluded since we have counted the some benefits from fertiliser in the agriculture sector and the plant itself would not help the very poor. These are all capital intensive projects providing little or no employment opportunities for unskilled labour. The fertiliser factory would benefit poor through lower prices but there would be a significant lag effect. Target Factor is 0.7 per cent.

Energy: Power, research and natural resources projects were calculated both individually and then aggregated since they are considered a single sector in the ADP, but differentiated in the breakdown of project aid. In the power sector all projects were concerned with generation and transmission were excluded on the grounds that only 3.5 percent of the total population have access to electricity.⁹⁴ We include rural electrification on the grounds that it has the potential to provide rural employment although, as has been pointed out by observers, it also has the potential to create unemployment, as in the much cited case of the mechanised rice mills. The value of projects that would benefit the poor was 14.2 per cent for the energy sector. Construction projects benefit the poor and unskilled in brick breaking but these are negligible when compared to the rest of the investment.

Natural Resources: Natural resources projects were almost wholly concerned with the exploration, transmission and distribution of natural gas. No projects were likely to benefit the poor. Gas is not distributed in the rural areas. Two research/science projects included were also unlikely to benefit the poor. Combined together they gave us Target Factor of 10.2 per cent for the natural resources sector.

Communications: In the communications sector, the projects were concerned largely with the improvement of the telephone and telex systems. These were unlikely to benefit the poor. Two projects aimed at improving communications with the rural areas were worth 39.9 per cent of the value of the communications projects and we estimated that possibly 50 per cent of the benefit might accrue to the poor so our Target Factor for the communications sector was calculated to be 18.7.

In the area of media, community broadcasting was considered potentially beneficial as a teaching tool, but it accounted for less than half a per cent of the projects presented, resulting in a Target Factor for the sector of 0.4 per cent.

Housing: The area of physical planning yielded 4 out of 15 projects concerned with rural sanitation that could potentially improve the lot of the poor. The Target Factor was 49.8.

Transport: In the transport sector, two projects, concerned with the improvement of rural roads, out of 18 transport projects, were potentially of benefit to the poor. One consisted of the improvement of upazila roads that could provide employment and improved access to markets. The other project was concerned with the provision of bridges and equipment for rural roads. The balance of the projects were concerned with such projects as the purchase of vessels for Bangladesh Shipping Lines, a maintenance hangar complex for Bangladesh Biman's DC 10 aircraft and the provision of locomotives for Bangladesh Railway. All these were highly capital intensive. The Target Factor was 38.7.

Education: In the education sector, 2 projects accounting for 43.8 per cent of the projects analysed were of benefit to the poor and assigned Target Factors of 100. Secondary and tertiary education were excluded on the grounds that the poorest, with very limited access to education both by virtue of their access to schooling and their economic situation, would not benefit from it. The projects included were Universal Primary Education and Distance Education. The Target Factor was established at 43.8 per cent for the education sector.

Public Administration: There was one public administration project. Target Factor, 0.

Health: In health, four of the sixteen projects presented could benefit the poor, and they were each assigned a target factor of 100. Most health projects were concerned with the provision of curative facilities that the poorest would never have access to; or with training for hospital workers, rather than for rural health assistants who work in the rural areas. The Target Factor was 8.5.

Population: In the population sector all projects potentially benefitted the poor being concerned with the provision of maternal and child health care that has proven in

the past to be a necessary adjunct to successful family planning. Target Factors were assigned to each. The Target Factor was 100.

Social Welfare: Of the social welfare projects that were included, one out of the four assessed qualified, the others being concerned mostly with rehabilitation of the handicapped.* Our Target Factor was 71.4.

Manpower and Labour: In the area of manpower, most planned resources were targeted at the poor mainly through employment creation programme. The Target Factor was 97.7.

Government Decentralisation: Finally, on the upazila allocation we estimated that some 25 per cent of the proposed expenditure which is mainly concerned with the provision of infrastructure in the rural areas might benefit the poor through employment opportunities created in the rural areas and assigned a target factor of 25. The Target Factor was set at 25.

Non-Governmental Organisations: Private contributions, the non-governmental organisations, contribute a substantial proportion of the foreign aid which reaches Bangladesh. Their assistance is generally aimed at the poor. Nevertheless, they too have expenses such as housing, transportation, local salaries, etc. We assigned private organisations a Target Factor of 75 per cent.

The foregoing is certainly not comprehensive and is largely the result of subjective judgments, but it serves to give us an indication of what priority the Government puts on the rural areas when drawing up its list of priorities. The other projects are not "bad" projects. Even the poorest countries must undertake hydrological studies, civil aviation training and the exploitation of natural resources. Such projects do not, however, contribute to a short-run improvement in the distribution of income since they improve the incomes of those who are already relatively well off: bureaucrats, professionals, skilled labour and the modern private sector. The foregoing distribution of proposed investment is strongly biased against the rural poor who in the case of Bangladesh form the majority. A country which has a smaller proportion of its population below the poverty line, such as Sri Lanka, might be able to afford to balance a slight erosion in distribution of income against the benefit of improved economic growth,

*Only the relatively well off of the handicapped receive assistance or access to facilities in this very poor country. Most handicapped are left to eke out a subsistence existence as best they can from begging or scrounging.

but a country such as Bangladesh which allows the standard of living of the majority of its population to deteriorate while a small minority get wealthier is headed toward disaster. The calculations are summarised in Table 5.2.

TABLE 5.2
Development of Indices for the Allocation of Aid to the Poor

Sector	AWP Sectoral Share	Value	Value of Targeted Projects	Target Factor
Agriculture Sector				
Agriculture	19.5%	\$1557.3	\$290.8	18.7%
Rural Development	1.7	137.6	79.0	57.4
Water & Flood Control	8.8	702.3	152.6	21.7
Industry	16.6	1322.9	9.7	0.7
Power	22.3	1775.6	251.8	14.2
Natural Resources	8.7	692.0	0.0	0.0
Transport	9.6	765.2	289.1	37.8
Communications	1.4	113.6	41.8	36.8
Physical Planning & Housing	2.1	168.9	67.1	39.7
Social Sector				
Education	4.7	371.8	163.0	43.8
Health	1.0	79.7	5.2	6.5
Population	0.6	51.3	51.3	100.0
Social Welfare	0.4	28.0	20.0	71.4
Manpower	0.1	9.6	9.4	97.9
Public Administration	0.0	1.1	0.0	0.0
Upazila (None)	2.5	200.0	100.0	50.0
Cyclone Reconstruction (None)	0.0	0.0	0.0	
Other (None)	0.0	0.0	0.0	
Total	100.0%	\$7,976.9	1,530.8	19.2%

Sources: ADP sectoral shares are calculated from World Bank, Bangladesh: Recent Economic Development and Medium Term Prospects, Report No. 6049 in 2 vols, Vol. II: Statistical Appendix, March 17, 1986, table 5.4, p. 29. Target Indexes were calculated from 178 projects in Bangladesh, Ministry of Planning, Planning Commission, List of Aid Worthy Projects: 1984.

Projects in media, religious affairs and culture and sports were not calculated.

Food Aid. Next we consider the case of food aid. This includes Vulnerable Group Feeding and Food For Work and to a lesser extent the Modified Ration System which, though it sells the food, does so at a subsidised price. Food aid is not included in the ADP and so we will have to determine separate indices for them. It is generally agreed that much food is diverted by those responsible for its distribution. As we have seen in the cases cited in Chapter III. Let us assume that 20 per cent of the food in the first two programmes is "appropriated" for handling charges or through corruption resulting in a Target Factor of 80. This would be consistent with what, in this writer's experience, aid officials appear to be satisfied with and to tolerate. We know that 7.5 per cent of the food is used to pay administrative charges. This is the figure negotiated with the Ministry of Food for the handling of food that was monetised to finance the

Rural Maintenance Programme carried out by CIDA and CARE in 1985.* That another 12.5 per cent goes astray is credible. For the modified ration system we will assume a figure equal to the average subsidy on the value of the food provided through this channel. We see from Table 5.3 that the proportion of food aid that is targeted at the poorest through the Food for Work Programme has averaged 22.2 per cent from 1974 to 1985, for the Relief and Vulnerable Group Feeding in Programmes is 7.7 per cent and for the modified ration system is 33.9 per cent. The subsidy element of the modified ration system averages about 33[™] per cent (See Table 3.7) so we use this as the Target Factor for the Modified Rationing System.

TABLE 5.3
Apportionment of Targeted Food Aid Resources to the Poor

	Target Share (Average)	Target Factor Case I	Target Index Case I	Target Factor Cases II	Target Index Case II	Target Factor Case III	Target Index Case III
Statutory Rationing	20.1	0.0	0.0	25.6	5.1	28.1	5.6
Priority Categories	34.0	0.0	0.0	25.6	8.7	28.1	9.6
Modified Rationing	22.3	33.0	7.4	33.0	7.4	33.0	7.4
Relief and VGF	5.1	80.0	4.1	80.0	4.1	80.0	4.1
Food for Work	14.6	80.0	11.7	80.0	11.7	80.0	11.7
Marketing Operations	1.4	0.0	0.0	25.6	0.4	28.1	0.4
Open Market Sales	2.5	0.0	0.0	25.6	0.6	28.1	0.7
Total	100.0%		23.2%		38.0%		39.5%

Sources: Average share of food allocated to each channel calculated from World Bank: Bangladesh: Economic and Social Development Prospects, Report No. 5409, 4 vols, Vol. IV: Statistical Appendix, April 12, 1985, table 10.1, p. 134.

After allocations to the Relief, Vulnerable Group Feeding and Food for Work Programmes, the remaining food aid is sold through the ration system or through open market sales. The proceeds go to finance the Annual Development Plan. In Case I we ignore this and in Cases II and III the revenues are apportioned according to the weight of the sectors in the Annual Development Plan.

The following are the assumptions about whether sectors are likely to benefit the poor or not. We should recall that the Annual Development Plan is a reflection of the Government of Bangladesh's priorities. The non-project portion is largely financed with the proceeds from the sale of commodities to state corporations or companies in the

*In 1985 the writer negotiated a food aid programme with the Government of Bangladesh. The proceeds from the sale of a fixed amount of food provided by Canada were to be monetised and the proceeds used to pay women in the unions to maintain union roads. Initially the Ministry of Food demanded 30 per cent in administrative charges for converting the food into currency. Finally a figure of 7.5 per cent was agreed upon.

**An unweighted average of the periodic subsidy factor works out to be about 26 per cent for rice and 12 per cent for wheat. Since we have no way of calculating the real subsidy factor. Thirty three per cent appears to be a realistic estimate.

private sector and the sale of food through the ration system. On the average from 1972/73 until 1983/84 domestic revenue financed 21.5 per cent of the Annual Development Plan revenue, project aid 36.2 per cent, non-project aid, i.e., commodities, 32.0 per cent and food aid 10.2 per cent.

TABLE 5.4
Application of Target Factor on the ADP

	ADP Sectoral Share	Target Factor	Target Index
Agriculture Sector			
Agriculture	13.1	18.6	2.4
Rural Development	3.3	57.4	1.9
Water & Flood Control	13.3	21.7	2.9
Industry			
Industry	11.7	0.7	0.1
Power & Natural Resources	19.6	14.2	2.8
Transport	14.5	37.8	5.5
Communications	3.0	36.8	1.1
Physical Planning & Housing	5.7	39.7	2.3
Social Sector			
Education	4.1	43.8	1.8
Health	2.9	6.6	0.2
Population	2.5	100.0	2.5
Social Welfare	0.6	71.4	0.4
Manpower	0.5	97.7	0.5
Upazilas	3.2	25.0	0.8
Cyclone Reconstruction	0.4	100.0	0.4
Other	1.2	0.0	0.0
Total	99.6		25.6

Sources: ADP sectoral shares are calculated from World Bank, Bangladesh: Recent Economic Development and Medium Term Prospects, Report No 6049 2 vols, Vol. II: Statistical Appendix March 17, 1986, table 5.4, p. 29. Target Indexes were calculated from projects in Bangladesh, Ministry of Planning, Planning Commission, List of Aid Worthy Projects: 1984, p. 1-431.

Projects in media religious affairs and culture and sports were not calculated

What we see from the above is that aid that is targeted at the poor tends to be in sectors that are small in terms of the aid that they receive. Thus, in sectors such as population and social welfare, even if all the aid is targeted at the poor it does not significantly affect the total amount that they receive. Conversely, in sectors such as the energy and natural resources sectors, only a small amount reaches the poor while the rest benefits the middle and upper classes. Even a modest increase in the amount of aid for energy focussed on projects that the poor would benefit from, such as social forestry for firewood production, would increase their share considerably. The problem is that, given the capital bias⁹⁵ and the limited administrative capacity of both the donors and the recipient⁹⁶ and the stress on disbursement by the former, it is far more attractive to spend

millions on a thermal generating station than it is on a demonstrably more complex and diffuse project such as social forestry. Likewise, we also see that, while transport is only a small part of the GDP, transport and communications averaged around 7 per cent (see Table 3.9),⁹⁷ but received almost 18 per cent of the allocations under the Annual Development Plan (see Table 5.4). Again there were no projects that were targeted at the informal part of the water transport sector, i.e., country boats, which account for some 80 to 90 per cent of the value added in transport and communications.⁹⁸ The reason is the same as that given above. The capital bias and pressure to disburse means that the propensity for the recipient to ask for, and for the donor to respond positively to, such items as locomotives for the railway sector which declined from about 4.6 per cent of the value added in 1972/73, when the railway infrastructure had been badly damaged by the War, to some 2.4 per cent of value added in 1983/84, after million of dollars of aid had been invested.⁹⁹ Once again we see what de Vylder means by the capital bias of aid.¹⁰⁰

Project aid Project aid has been allocated using the same indices that we developed above, but weighted by the actual historical allocation of project aid among the various sectors.

Project aid is more a reflection of donor priorities than the Annual Development Plan. We see from Table 5.5 that project aid has even more propensity to flow to the capital intensive sectors of the economy. Where the Annual Development Plan allocated 10.6 per cent to the social sectors (Table 5.4), project aid from the donors only allocates some 9.3 per cent (Table 5.5). In the agricultural sector the Annual Development Plan has allocated some 29.7 per cent of the country's resources to agriculture rural development and irrigation (Table 5.4), whereas the donors have only spent some 20.9 per cent of their aid on agricultural assistance. What de Vylder terms the "capital bias" is again made clear.¹⁰¹

TABLE 5.5
Apportionment of Project Aid

Sector	Project Aid Allocation	Target Factor	Target Index
Agriculture Sector			
Agriculture	9.8	18.6	1.8
Rural Development	2.5	57.4	1.4
Water & Flood Control	8.6	21.7	1.9
Industry			
Industry	14.8	0.7	0.1
Power	16.5	14.2	2.3
Natural Resources	8.1	0.0	0.0
Transport	17.5	37.8	6.6
Communications	2.2	36.8	0.8
Housing	2.2	39.7	0.9
Social Sector			
Education	2.7	43.8	1.2
Health	2.4	6.6	0.2
Population	3.6	100.0	3.6
Social Welfare	0.4	71.4	0.3
Manpower	0.2	97.7	0.2
Public Administration			
Public Administration	0.4	0.0	0.0
Cyclone Reconstruction	0.6	75.0	0.5
Private NGOs	7.3	75.0	5.5
Total	99.8		27.3

Average share of project aid to each sector calculated from Bangladesh External Resources Division, Ministry of Finance Flow of External Resources into Bangladesh (As of June 30, 1985), table 16, pp. 162-163.

The methodology for calculating the share of national income for each group is outlined in the following tables for the year 1973/74. From the Target Indices calculated above we can now apportion aid actually provided between targeted aid, directed at the lower 60 per cent of the society and untargeted aid which benefits the top 40 per cent. Table 5.6 divides aid in 1973/74 into targeted and untargeted aid using the indices that we have developed for each year.

TABLE 5.6
Apportionment of Targeted and Untargeted Aid - 1973/74

	Target Index	73/74 Aid	Targeted Aid	Untargeted Aid
Food Aid	0.1726	\$228,745	\$39,472	\$189,273
Programme Aid	0.2837	108,137	30,675	77,462
Project Aid	0.2825	124,355	34,711	89,220
		\$461,237	\$105,282	\$355,955

Sources: Target Index derived from 1984 List of Aid Worthy Projects and weighted according to the importance of each sector in the distribution of food, the Annual Development Plan and the breakdown of project aid. Aid for the year taken from Flow of External Resources into Bangladesh (As of June 30, 1985).

Once aid has been separated into targeted and untargeted aid, its effective value is calculated by splitting it into consumption and investment. This is derived by using the split between investment and non-investment government development expenditure in each year and is shown in Table 5.7. It must also be converted from United States Dollars, which is used to denominate aid flows in the Flow of External Resources and this is done using the average exchange rate for the year in Table 5.9.

TABLE 5.7
Classification of Development Expenditure

[Taka in Crores]

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
Investment	215.2	284.6	479.0	647.4	8669.9	9295.6	13493.2	14778.4	15783.5	17424.2	22335.2
Non-Investment	96.5	143.5	242.5	270.6	3526.4	6250.3	8232.5	9904.6	9745.8	6847.9	8071.2
	311.7	428.1	721.5	918.0	12,196.3	15,545.9	21,725.7	24,683.0	25,529.3	24,272.1	30,406.4

Sources: Bangladesh Bureau of Statistics, 1979 Statistical Yearbook of Bangladesh, Table 7.6, p. 303, and 1984-85 Statistical Yearbook of Bangladesh, table 9.5, p. 560.

TABLE 5.8
Calculation of Effective Targeted and Untargeted Aid - 1973/74

	Aid	ICOR	Ratio of Investment to Development Expenditure	Contribution to National Income of Investment	Ratio of Non-Investment to Development Expenditure	Contribution to National Income of Investment	Total Contribution to National Income
Targeted Aid	\$105,282	0.4	0.6904	29,073	0.3096	31,698	59,964
Untargeted Aid	\$355,955	0.4	0.6904	98,295	0.3096	111,118	210,210

Sources: Target Index derived from List of Aid Worthy Projects and weighted according to the importance of each sector in the distribution of food the Annual Development Plan and the breakdown of project aid for the year taken from Flow of External Resources into Bangladesh

TABLE 5.9
Average Exchange Rates

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84
Fiscal Year Averages	7.9661	8.8759	14.8521	15.4667	15.1215	15.2228	15.4777	16.3447	20.0400	23.7629	24.9486

Sources: World Bank, South Asia Programs Department Bangladesh: Economic and Social Development Prospects, 4 vols, Vol. IV: Statistical Appendix, April 12, 1985, table 6.1, p. 49.

Finally, in Table 5.10 we allocate the contribution of targeted aid to national income to the bottom 60 per cent of the population and the contribution of the untargeted aid to the top 40 per cent of the population and subtract it thus simulating the performance of the economy if foreign aid were absent. For 1973/74 we use the actual distribution of income.¹⁰² The equal distribution of income among the different quintiles is probably not realistic since those with at the top end of either group would probably benefit more.

For the purpose of the model we assume an incremental capital output ratio (ICOR) of 2.5 as Faaland and Parkinson have suggested.¹⁰³

TABLE 5.10
Apportionment of Targeted Aid to the Distribution of Income 1973/74

	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Ninth Decile	Tenth Decile	Gini Coefficient
Distribution of Foreign Aid	163.8	163.8	163.8	830.5	415.3	415.3	
Actual 1973/74 Distribution of Income	6.9%	11.3%	16.1%	23.5%	14.8%	27.4%	
Distribution of National Income	6.9%	18.2%	34.3%	57.8%	72.6%	100.0%	0.3438
Cumulative Distribution of NI	4,904.9	12,937.7	24,382.5	41,087.7	51,608.4	71,086.0	
Cumulative Distribution of Aid	163.8	327.5	491.3	1,321.8	1,737.1	2,152.3	
Derived Cumulative Distribution of NI	4,741.2	12,610.1	23,891.2	39,765.9	49,871.8	68,933.7	
Derived Cumulative Distribution of NI%	6.9%	18.3%	34.7%	57.7%	72.3%	100.0	0.3429
Derived 1973/74 Distribution of Income	6.9%	11.4%	16.4%	23.0%	14.7%	27.7%	

Sources: Distribution of income for 1973/74 from World Bank, *World Development Report 1984*, (New York: Oxford University Press for the World Bank, 1984) table 28, p. 272.

Line 1 of Table 5.10 shows our simulated distribution of aid. Line 2 of the graph shows the actual distribution of income. Line 3 shows the actual distribution of income converted to cumulative. Line 4 shows the distribution of actual national income to each quintile or decile. Line 5 shows the cumulative distribution of our simulated distribution of effective aid. Line 6 shows the new derived distribution of national income with aid removed. Line 8 shows the new distribution of income. In the last column of line 3 we have calculated the actual Gini Coefficient for the existing 1973/74 distribution of income. At the end of line 7 we have calculated the derived Gini Coefficient for 1973/74 without aid and we note that it has decreased, reflecting a slightly more equitable distribution of income. The conclusion from this, therefore, is that as you take away aid, distributed as it is in our model, the distribution of income becomes slightly more equitable.

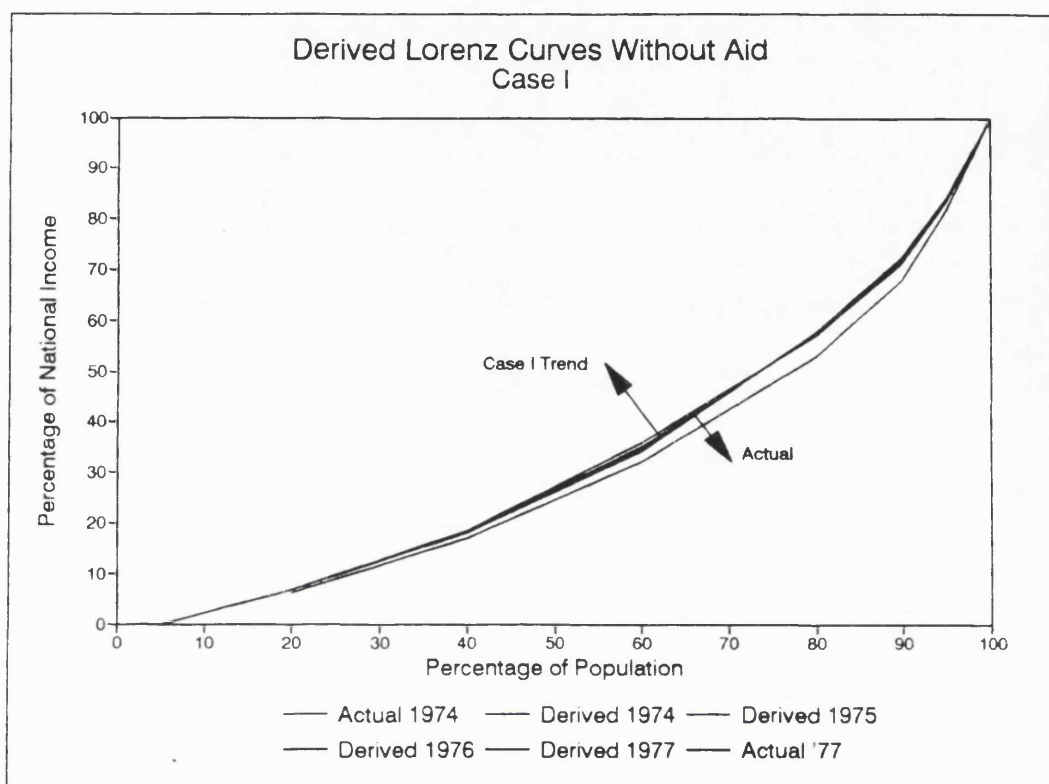
TABLE 5.11
Derived Distribution of Income 1974/75 to 1976/77 - Case I

	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Ninth Decile	Tenth Decile	Gini Coefficient
Actual 1973/74 Distribution of Income	6.9%	11.3%	16.1%	23.5%	14.8%	27.4%	0.3438
Derived 1973/74 Distribution of Income	6.9	11.4	16.4	23.0	14.7	27.7	0.3429
Derived 1974/75 Distribution of Income	6.8	11.5	16.7	22.5	14.5	28.0	0.3423
Derived 1975/76 Distribution of Income	6.7	11.8	17.3	21.4	14.2	28.6	0.3417
Derived 1976/77 Distribution of Income	6.7	11.9	17.7	20.6	14.0	29.1	0.3411
Actual 1976/77 Distribution of Income	6.2	10.9	15.0	21.0	14.9	32.0	0.3831

Sources: Actual distribution of income for 1973/74 is from World Bank, *World Development Report 1984*, (New York: Oxford University Press for the World Bank, 1984), table 28, p. 272. and the actual distribution of income for 1976/77 is from World Bank, *World Development Report 1986*, (New York: Oxford University Press for the World Bank, 1986), table 23, p. 226.

In Table 5.11 the same methodology has been used to calculate respectively the derived distribution of income, should aid be removed from the economy, for fiscal years 1973/74 to 1976/77. The last column shows the calculated Gini Coefficient for each year. We see that it has steadily decreased as we have removed aid from the economy resulting in an increasingly more equitable distribution of income. This is confirmed by the first two columns where we see that the first two quintiles, the lowest 40 per cent of the population, have a slightly larger share of the national income. The first quintile has dropped 0.2 per cent while the second quintile has increased by 0.5 per cent. The last line, however, shows the real distribution of income for 1976/77. In comparison with our model the Gini Coefficient has actually increased resulting in a more inequitable distribution.

FIGURE 5.1



This model is not proof of the how harmful foreign aid can be. There are far too many variables, including the crudeness and subjectivity of our assessment of the amount that benefits the upper class, the particular time chosen, which coincides with both the 1974 famine and the political turmoil surrounding the assassination of Mujib. It does show, however, that aid distributed primarily to the better off elements of society tends to shift the distribution of income to an increasingly less equitable situation. What makes this tentative conclusion all the more interesting is to recall from Chapter IV, Table 4.4, that during the time Bangladesh, then East Pakistan, was being neglected and not receiving its "fair share" of aid the distribution of income was actually increasing in equity. In other words it appears that foreign could be doing precisely what it is designed to cure, according to its adherents, worsening the lot of the poorest.

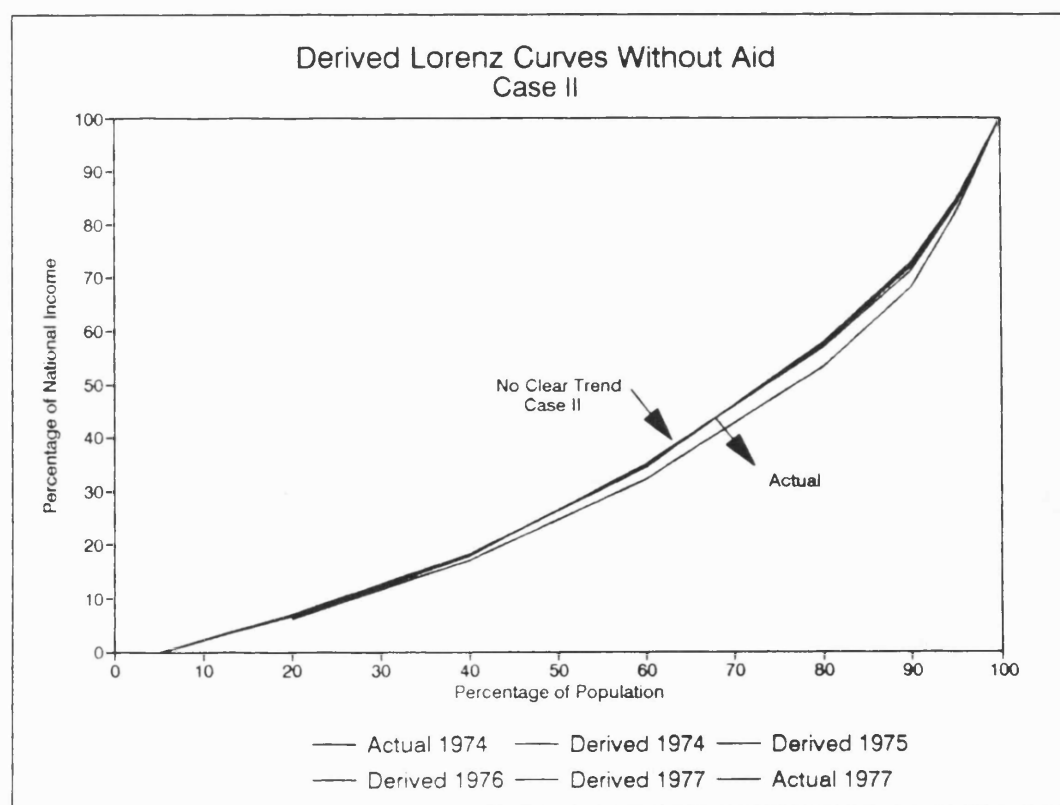
TABLE 5.12
Derived Distribution of Income 1974/75 to 1976/77 - Case II

	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Ninth Decile	Tenth Decile	Gini Coefficient
Actual 1973/74 Distribution of income	6.9%	11.3%	16.1%	23.5%	14.8%	27.4%	0.3438
Derived 1973/74 Distribution of Income	6.8	11.3	16.3	23.1	14.7	27.7	0.3450
Derived 1974/75 Distribution of Income	6.7	11.4	16.5	22.7	14.6	28.1	0.3468
Derived 1975/76 Distribution of Income	6.4	11.5	17.0	21.8	14.4	28.9	0.3509
Derived 1976/77 Distribution of Income	6.3	11.6	17.3	21.2	14.2	29.3	0.3523
Actual 1976/77 Distribution of Income	6.2	10.9	15.0	21.0	14.9	32.0	0.3831

Sources: Actual distribution of income for 1973/74 is from World Bank, *World Development Report 1984*, table 28, p. 272. and the actual distribution of income for 1976/77 is from World Bank, *World Development Report 1986*, table 23, p. 226.

In Table 5.12 we have repeated the same calculations except that we have counted as benefits the revenue derived from the sale of food aid through the ration system and calculated its Target Index from the Annual Development Plan which it partially finances. The results are more mixed than Case I. The Gini Coefficient increases slightly indicating that overall equity is still decreasing, but not to the extent that it does with aid included. The conclusion here is that the distribution is sensitive to the amount reaching the poorer elements.

FIGURE 5.2



Finally in Table 5.13 we repeat the exercise, but we decrease our definition of the upper class from 40 per cent to 20 per cent. This would be consistent with both Farouk's and Sobhan's assessment of the size of the population really benefitting from foreign aid. We also increase the benefit from fertiliser from 20 per cent to 40 per cent for the poorer classes since the additional 20 per cent of the population would include small landholders who would use fertiliser.

TABLE 5.13
Derived Distribution of Income 1974/75 to 1976/77 - Case III

	First Quintile	Second Quintile	Third Quintile	Fourth Quintile	Ninth Decile	Tenth Decile	Gini Coefficient
Actual 1973/74 Distribution of income	6.9%	11.3%	16.1%	23.5%	14.8%	27.4%	0.3438
Derived 1973/74 Distribution of Income	6.9	11.4	16.4	24.0	14.2	27.2	0.3391
Derived 1974/75 Distribution of Income	6.8	11.5	16.7	24.6	13.4	26.9	0.3338
Derived 1975/76 Distribution of Income	6.7	11.8	17.3	25.8	12.0	26.4	0.3236
Derived 1976/77 Distribution of Income	6.7	12.0	17.8	26.6	10.9	26.0	0.3155
Actual 1976/77 Distribution of Income	6.2	10.9	15.0	21.0	14.9	32.0	0.3831

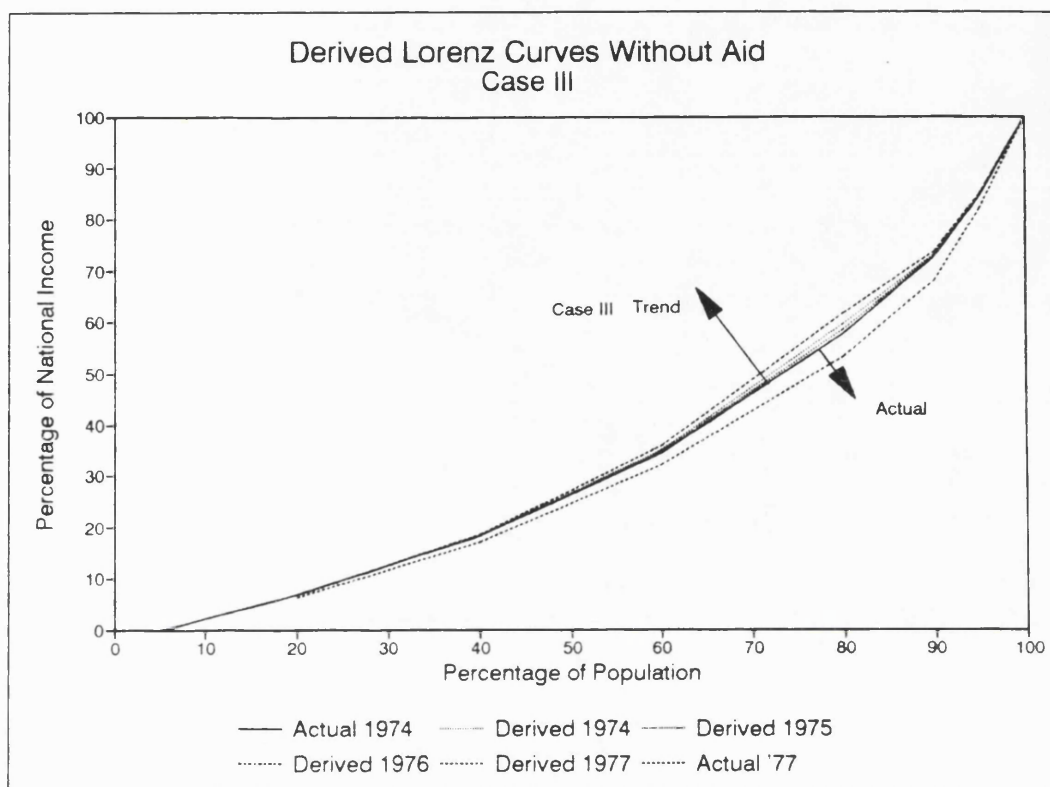
Sources: Actual distribution of income for 1973/74 is from World Bank, *World Development Report 1984*, table 28, p. 272. and the actual distribution of income for 1976/77 is from World Bank, *World Development Report 1986*, table 23, p. 226.

The results here are much more dramatic and we see a steadily decreasing Gini Coefficient indicating an improvement in the distribution of income that is quite dramatic.

If we compare this trend to the income distribution situation between 1963/64 and 1968/69 for the two areas for which the data is comparable, the lowest quintile and the highest quintile, (see Table 4.4). Between 1963/64 and 1968/69 the proportion of national income going to the lowest quintile increased from 7.7 per cent to 9.3 per cent, while in our model, Case III, it decreases from 6.9 per cent to 6.7 per cent but the second, third and fourth quintiles all show distinct improvement. At the upper end of the scale during the 1963/64 to 1968/69 period the share of the top quintile dropped from 45.7 per cent to 40.5 per cent. In Case III, if we removed foreign aid their share of the upper quintile would drop from 41.6 per cent of the national income to 36.9 per cent.*

*The ninth and tenth deciles in Table 5.13 are added together.

FIGURE 5.3



Conclusions: Essentially what can be concluded from the foregoing is as follows. If the estimated allocation of aid is predominantly to projects that benefit the already relatively privileged, the poorer elements of society become worse off. In Case II sensitivity analysis, which allocates more benefits from the sale of food aid to the poor, the situation is similar. Although the Gini Coefficient has risen slightly, it is still well below the actual for 1976/77. We note, however, that the proportion of income to the poorest quintile is still decreasing although not to the extent that the empirical evidence showed that it did during the period. Essentially the elimination of aid would, the model predicts, contribute to either an increasingly equitable distribution of aid or a diminishing of the deterioration of distribution of income. The Case III sensitivity analysis, where the upper class is reduced, as Farouk and Sobhan has claimed it is, shows a trend that is similar to the actual situation in the 1960s prior to which, Sobhan claims

Pakistan appropriate[d] 100% of all external resource inflows. . . . Only in the 1961/61 to 1968/69 period was this process modified as Bangladesh moved into deficit with the rest of the world. Here only 11% of net external inflows coming into Pakistan accrued to Bangladesh. . . .¹⁰⁴

We find that very little aid actually benefits the poor who are, we will recall, are the principal justification for giving foreign aid. There are few targeted programmes

in such areas as rural development population and manpower. The nature of foreign aid in Bangladesh is such that the poor do not have access even to the crumbs that fall from the capital intensive table of the government and the donors. They do not benefit from such things as employment. The majority of the employment provided by aid such as construction in the industrial or energy sectors or through the construction of such things as food storage facilities demands skills that they do not have. Where the poor do benefit directly from such programmes as Food for Work the beneficiaries of the work done to create the capital structures are the wealthier elements of the rural society. They do not benefit from investments in power and natural gas; in fact with the capital intensive propensity of Bangladesh, they may even be deprived of livelihood as capital intensive projects eliminate jobs. They do not benefit from investment in agriculture which is skewed heavily toward the capital intensive approach to irrigation as de Vylder has demonstrated.¹⁰⁵ They benefit only marginally from the improvements in agricultural technology because they do not have the resources with which to meet the increased costs such approaches. Most food aid provided is distributed to the middle class and even to the upper classes. We have seen that even a large share of targeted food aid is caught in what BRAC terms "the net" held by the rural power structure. A very large proportion of rural development programmes does not reach the poor because they cater to the cooperative system which is dominated by the rural elite.¹⁰⁶ The Government's own efforts largely neglect the poor and the donors accept this approach and support investment in activities that benefit the middle class. With the distribution of income already skewed in favour of the upper classes, this approach contributes to their increasing wealth providing them with the means to increase their share even more

All of these biases translate into a situation where aid, given ostensibly to benefit the poor, ends up benefiting the relatively well off. If aid were distributed in the same proportion as the existing distribution of income, there would at least be no deterioration in the distribution of income. Other factors such as the population problem would still favour the well off as employment opportunities for them far outstrip the skilled work force.

If a concerted effort were made to direct aid at the poor giving them access to the resources that they lack now the potential in achieving growth would be quite significant. /low

NOTES

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CHAPTER VI

SUCSESSES AND COMPARISONS

Selected Successes

The Garment Industry. In recent years, since 1980, only one industry, garment manufacturing, has grown quickly. From exports of US\$3.24 million in fiscal year 1981, when it accounted for 0.5 per cent of export earnings, it has grown to an estimated US\$116.2 in fiscal year 1985, accounting for some 12.4 percent of exports.¹ This makes it an important source of foreign exchange and the fastest growing export product. This rapid growth attracted attention in the importing countries and their response, the imposition of import quotas, set back the rate of growth.

Several external factors were responsible for this rapid growth. Other traditional exporters were completely utilising their quotas. Bangladesh, as a low income country, was not yet subject to quotas. The garment industry, being labour intensive, lent itself to rapid expansion with minimal risk to outside investors in terms of investment and capital equipment and maximum opportunity to local entrepreneurs. The cost of labour was low. Workers are easily trained. Thus, the industry was marked by a proliferation of manufacturers both from outside the country, and from within it. Growth has been somewhat chaotic. This has been complicated by the imposition of quotas and the resulting need devise a system to allocate export quotas. Nevertheless, it has been steady and provides ample evidence of the capacity of the country to respond to market opportunities. Ironically it has accomplished one of the objectives that aid has pursued with only marginal success: the introduction of women into the cash economy. Bangladesh does not have the repressive reputation of some other Islamic countries with respect to its treatment of women. It does, however, restrict their participation in the economy. Women who do enter the economy often do so because extreme poverty has forced them to. They are largely

agriculture, except where poverty has forced them to break social taboos. To the casual observer in Dhaka before the emergence of the garment industry women were rarely seen on the streets. By the mid-1980s their presence was evident in both Dhaka and Chittagong, the two main production centres, as they travelled to and from work. It is estimated that some 100,000 women have found employment in the garment industry and have joined the cash economy.

The World Bank, in its internal paper Innovative Approaches,² identified three critical factors in the success of the Garment Industry. The first was a foreign catalyst, in this case Daewoo of South Korea. The second was a local entrepreneur with vision, Noorul Quader of Desh Garments Ltd. The third was a willingness and ability of both the workers, some of whom were potential entrepreneurs, to learn quickly. The analysis points out that they did not rely on ". . . drastic import liberalisation or huge export incentives--policies that would equalize the effective incentives for exporting with those for substituting imports? Or with heavy help from the public sector." Each party gained. Daewoo gained a market for its machines and a slice of the profits from garment sales. Quader gained access to foreign skills in production, management and marketing. The relationship was severed within two years. By then Quader and Desh had gained the ability to manufacture for foreign markets and had some appreciation of the marketing side of the business. By 1987 garments were being manufactured by many factories, most of which owed their origins to Desh Garments Ltd. since they had been trained in Korea but had left to start their own garment factories upon return. By then the industry also accounted for 28.2 per cent of exports, up from 0.5 in 1981.³

Wheat Production. One area in the agricultural sector that strikes a strong contrast to the rest of the sector has been the phenomenal growth of wheat production. From a minor crop at the time of independence it has risen to account for more than 6 per cent of cereal grain production.

At the time of independence there were only some 200,000 acres under production. The general view held by most people at the time was that wheat would not adapt to growing conditions in East Pakistan although a small amount was grown in some areas. Against this prevailing view there were two groups of people who believed that wheat to a viable crop in the country. One group was made up of a few officials within the Government bureaucracy and the second group was in the international research community.

International wheat research is centred at the CIMMYT in Mexico. These two groups believed that wheat could be grown and that the conditions in the country were right for the introduction of modern varieties. The factors that argued for the introduction of wheat were as follows:

It was a non-competitive crop in that it could be grown in the dry winter season when rice is only a minor crop. There were some areas where the soil had sufficient residual moisture that given appropriate varieties they should in theory thrive without irrigation;

The varieties presently in use were inefficient and research in other parts of the world had in recent years developed new varieties for tropical climates that might prove adaptable,;

Since most land was fallow in the dry winter season the introduction of wheat would not displace any other crop and would increase both the cropping ratio and the productivity of the land;

Since the crop and the technology were new their introduction would not be displacing a tried and true technology that had served farmers well in the past and from which they might be reluctant to deviate;

Although it could utilise irrigation to good advantage, wheat could be grown successfully using the residual moisture in the soil and hence was not dependent upon the introduction of a large capital investment in pumps or canals.

The new varieties of the crop were introduced and variety testing was undertaken at the Bangladesh Crop Research Institute. Since 1983 the work has been supported by CIDA. CIDA's contribution has amounted to some \$5.0 million from 1983 to 1986, a very small amount when compared to the investment in food aid or railways.

What sets the aid given by CIMMYT off from the more favoured types of assistance: commodities, food and capital infrastructure, is that it is largely in technical assistance. This investment in the transfer of knowledge has had a significant return for the country both in terms of additional production and import substitution. The nature of the crop is such that it did not displace other food crops, but contributed to a net increase in production. "Appropriation" of technical knowledge is difficult under any circumstances, and even where it does occur it nevertheless contributes to increased production or efficiency.* For this very reason it is the type of aid most eschewed by recipient

*While the opportunities for "appropriating" technical assistance are less than other types of aid one cannot altogether dismiss them. It was alleged that some foreign experts paid their local superiors to request their continued presence past the time where their real contribution had diminished to nothing. This tended to occur in agencies where the critical appraisal of effectiveness was lacking usually through inadequate supervision.

bureaucrats. It is often accused of perpetuating dependence and depriving local scientists of the opportunity of making a contribution.

We can identify the same three factors that led to the success of Dosh in the garment industry. The entrepreneurship resided in the Bangladesh scientists who believed that wheat was a viable crop. CIMMYT was the foreign catalyst; its mandate as an international research institution calls for it to support local initiatives. The ability of Bangladeshi farmers to learn quickly and adopt new methods was the final prerequisite for success.

The example of wheat production in Bangladesh demonstrates to success of putting together a blend of local expertise with international expertise with spectacular results. Not all technical assistance meets with the same success. Much is justified by the donors need for accountability, distrust for local institutions and the donors' underestimation of the recipient country's ability to manage programmes. The question of management, of course, is still a weak point in Bangladesh. There are many qualified Bangladeshi scientists who, with the proper financing and motivation, could be better used to meet development objectives.

The Grameen Bank. Another example of a successful enterprise was the founding of the Grameen Bank, a specialised credit institution designed to allow access to resources by the poor. Established in 1978 as a research programme by Professor Mohammad Yunus, professor of economics at the University of Chittagong, it has grown to the status of a full-fledged bank with 108 branches.⁴

A pilot study was started in 1976 in the village of Jobra near the University of Chittagong.⁵ After three years, it was expanded with the assistance of the Bangladesh Bank. It was not until 1982, some 6 years after the inception of the project that it accepted aid from IFAD.⁶ In September 1986 it was converted into a full fledged scheduled bank with an authorised share capital of 80 million taka and a paid up share capital of 30 million taka. Forty per cent of the share capital was provided by the Government, 40 per cent by clients of the bank, 10 per cent by Bangladesh Krishi Bank and 10 per cent by Sonali Bank.⁷ It has also accepted funding from Norway and Sweden,⁸ but, and this is significant, has refused to accept funding from other donors in order not to be subjected to donor pressures.⁹

The objectives of the Grameen Bank are as follows:

1. To extend banking facilities to the poor men and women.

2. To eliminate the exploitation of moneylenders.
3. To create opportunities for self-employment for the vast unutilized and underutilized manpower resource.
4. To bring the disadvantaged people within the folds of some organizational format which they can understand and operate, and can find socio-political and economic strength in it through mutual support.
5. To reverse the age-old vicious circle of "low income, low savings, low investment, low income" into an expanding system of "low income, credit, investment, more income, more investment, more income".¹⁰

The manner of operation of the Grameen Bank is to encourage persons who own less than 0.5 acres of land, or whose total assets do not exceed the value of one acre of land, to form groups. They were then trained by Bank personnel in the fundamentals of financial management. Each member deposits one taka* per week into a group fund account and in addition 5 per cent of each loan is also deposited in the fund account. Members of the group are then eligible to borrow up to 5000 taka for some commercial activity. The loan must be repaid in weekly installments at a rate of 16 per cent.¹¹ The principle behind the project is that the people eligible to borrow are effectively cut off from the regular banking system since they have no collateral to offer as security. They are therefore at the mercy of professional money-lenders who charge interest rates that range from 30 to 300 per cent. The payment of such usurious rates means that loans often cannot be repaid. The little collateral that the borrower has is lost, thus contributing to the increasing impoverishment and, often, loss of land of the individual.

Important features of the Grameen Bank are that it was the brainchild of a Bangladeshi, not the suggestion of an aid agency. It initially refused to accept financing from agencies because it did not want to find itself tied to donor requirements. Once it had established itself, and the Grameen Bank became a model for rural credit in many countries, the organisational structure had the strength to resist changes which donors might wish to impose. Professor Yunus believed originally that accepting aid would alter the fundamental self-help philosophy, and was prepared to forego more rapid development in favour of continued autonomy. Once the model was established and growth became a paramount object, financing became a bottleneck which could only be overcome by increased funding.

In Rahman's study it was found that the average per capita income of the borrowers questioned had risen 53 per cent in real terms between 1982 and 1985.¹² There

*About US\$0.038.

have also been some benefits to non-borrowers who have gained from their proximity to borrowers through improved access to such things as irrigation facilities.¹³ Rahman also found that in the study area there had been considerable flood damage and pauperisation of people who had lost their crops but, significantly, none of the Grameen Bank borrowers, all drawn from the poorest elements of the society, were forced to accept emergency relief.¹⁴ The loan recovery rate was excellent for Bangladesh, overdue loans at the time of Hossain's study were only 1.9 per cent.¹⁵ The marginal propensity to save was calculated to be 0.13 and the elasticity of expenditure for the acquisition of productive assets to be 1.54.¹⁶ The programme is not without its problems. It has been found that there is decreasing marginal productivity of subsequent loans. Some of the activities undertaken have very low productivity. Finally, there is the finite capacity of the managing director, Professor Yunus, to continue to take the personal interest in the selection and motivation of bank workers, a critical factor in the bank's success, in an institution that is expanding rapidly. These are all problems remaining to be overcome.¹⁷

What the Grameen Bank effectively demonstrates is that investment in the poor can be economically viable and produce a significant rate of return. What it also points out is the need to provide training for the poor to enable them to diversify their enterprises in order to achieve sustained growth.

Finally in examining this programme some of the same elements as the previous two cases are evident. The entrepreneurship and the catalyst resided in the same individual, Professor Mohammad Yunus. He both conceived of the original idea of bringing credit to the very poor and put it into action. The poor demonstrated the capacity to learn quickly how to use credit to improve their standard of living. This last example, standing alone without foreign participation in its early stages, demonstrates the essential capability of the country to move ahead with self-sustained development.

Bangladesh Biman.* Bangladesh Biman (Bangladesh Airlines) is an example of an enterprise which was run for years with the same degree of inefficiency as characterises most ministries in Bangladesh. Although some effort had been made to put it on a commercial basis, it was still hamstrung by bureaucratic red tape and was continuously in the red until 1985. Previous to that, the whole enterprise was in danger of foundering due

*This example is anecdotal and drawn from the writers knowledge of the personalities involved during the period.

to the acquisition of three DC10s from Singapore Airlines and the accompanying debt incurred. In August 1984 it suffered a fatal crash on its domestic service further sullyng its reputation. A new Managing Director was appointed. While he had no previous airline administrative experience he brought with him imagination, an openness to listening to advice and the entrepreneurial spirit necessary to manage a commercial enterprise. He argued vigorously for autonomy in the handling of personnel, acquiring the right to hire and fire without reference to higher authority. He put pilots and other skilled personnel, who traditionally left at the first chance of a higher salary, on personal service contracts which were more lucrative, though still not internationally competitive, but which could be terminated on short notice. He stopped the practice of the Managing Director accompanying the President on all his overseas travels, delegating this to subordinates, on the assumption that there was better use to which he could put his time. He imported foreign technical assistance to manage the maintenance operations. He pursued business aggressively both in the charter business, principally the transport of pilgrims to Mecca. He took advantage of market opportunities. For example, as other airlines increasingly cut flights to Libya he negotiated carriage rights from Athens to Libya and maintained an almost 100 per cent load factor. While Bangladesh was not particularly sympathetic to Libyan aspirations, Biman could maintain a low profile while maintaining a profitable route. He cultivated the small foreign community in Dhaka and within a year of taking over had won back much of the confidence lost in the 1984 crash, through rigourous attention to keeping the planes flying on time and making known the quality of maintenance they were receiving. By comparison with Indian Airlines, Biman was soon regarded, even in Bombay and Calcutta, as the airline to fly if you wanted to reach your destination on time. Biman aggressively pursued the backpack fraternity by offering the cheapest fares between Europe and Asia. As oil prices dropped he sought jobs for Biman cabin personnel on Middle Eastern airlines to replace higher priced European and American staff.

Good public relations were another important factor in making inroads to markets which had been the preserve of foreign airlines. In October 1985 he made one of the regular aircraft available for the medical evacuation of a Canadian aid worker on three hours notice and obtained the overflight clearances for Burma in record time. While Biman charged fair charter rate for the evacuation, their speed and helpfulness made many friends in the foreign community. Within a year Bangladesh Biman was in the black for the first time and an

enterprise which had for years been a drain on the treasury was contributing its fair share to the economy.

Once again we can identify the keys to success. There was the same entrepreneurial spirit in the Managing Director of Bangladesh Biman, even within the Government bureaucracy, that had made Quader's garment enterprise a success. The use of foreign expertise in critical areas where Biman had lacked the capacity to perform effectively was the second factor. Finally the staff of the airline, when provided with the challenge to respond to new opportunities, did so enthusiasm.

Selected Comparisons

The foreign bias: imports and Nigeria. The emphasis on the importation of goods in Bangladesh,¹⁸ rather than investment in productive enterprise is not without precedent. The influx of oil money into Nigeria provided a source of foreign exchange that encouraged entrepreneurs into the business of imports. It discouraged investment in the less profitable industrial and agriculture sectors.¹⁹

While Nigeria received a glut of free foreign exchange from the proceeds of oil, Bangladesh received a glut of aid money from the international donor community. It is easy to see how entrepreneurs would prefer to make a quick \$4.0 million from the importation of irrigation equipment, the example cited in Chapter III, to earning a much more modest profit from establishment of an industrial firm to manufacture the same pumps.

Aid as "habit of mind": Malta and NATO. The same attitude towards aid that we have seen in Bangladesh, that it is the perceived obligation of the international community to support the less developed countries, prevails elsewhere. White²⁰ cites the case of Dom Mintoff's government in Malta. Upon being returned to power it forced the withdrawal of the both the Governor General and the NATO commander, but sought and expected the United Kingdom, which had contributed to the Maltese economy through the expenditures and employment provided by the NATO base, to replace this loss with increased aid.²¹ In fact Malta sought, and received, aid from several NATO countries including Canada.* As White points out the failure of Mintoff's Government to see the

*During the time this writer was Country Programme Manager for Egypt and Sudan, from 1980 to 1982 he was responsible for some of the details in closing the line of credit Canada had made available to Malta as compensation for the economic privation suffered

inconsistency of this action suggests that aid had become a "habit of mind". The fact that in response to this expectation some aid actually was rendered to Malta suggests that, in the minds of the donors, aid has also become a "habit of mind".

In Bangladesh there were frequent examples of aid as a "habit of mind" on the part of both the recipient and the donor during the period studied. The most obvious example in Bangladesh was cited by McHenry and Bird in Chapter III, and termed the "policy effect", where Bangladeshi officials refused pay attention to realistic long term strategies designed to lead the country towards food autarky in the belief that the donors would never let the country starve. This view is substantiated by the donors who do continue to make foodstuffs, surplus to their own needs, available to countries such as Bangladesh. The belief that this can be sustained indefinitely, however, is naive and an examination of the rise and fall of food aid availability with surplus harvests will confirm this.

Poverty as a resource: Somalia and the refugee problem. In the late 1970s, against the advice of its Soviet patrons, the Government of Somalia declared war on Ethiopia. Its intent was to effect the recovery of the part of the Ogaden desert that had once been part of traditional Somalia. President Barre had hoped to restore the "Greater Somalia" that had once been made up of the five areas still inhabited by Somalis: (former) Italian and British Somalias, the Ogaden, Djibouti and Northern Kenya. The war was disastrous and the Somali army was routed and forced to retreat within its frontiers. The USSR had in the meantime decamped taking with it virtually everything that had been provided in support of its military presence. The retreat of the army was followed closely by a huge influx of refugees from the Ogaden.*

The number of refugees in the country varied with the seasons and was made up for the most part of women and children. The men drifted back into their traditional grazing areas. The actual number of refugees was a continual point of contention between the donors and the Government. The former were trying to calculate how much food was needed while the latter were trying to maximise the amount of aid flowing in. The issue

from the withdrawal of the NATO forces stationed there. While White points out the illogicality of a country asking for aid while acting against the interests of the donor we must surely also question the rationale behind rendering the aid requested.

*Somalia has had some refugees since as early as the middle 1960s who have settled camps which have almost become part of the community.

was a very delicate one and workers in camps had been cautioned not to count the number of people in the camps. Initially during the early part of 1981 there had been considerable misappropriation of food, but this had been brought down to manageable proportion with the appointment of CARE International to monitor the distribution. They were able to do so up to the camp gates, but once inside there was still scope for misappropriation by the camp management.

In December 1981 a census of the refugees was held, ostensibly monitored by foreign observers. It was acknowledged by the foreign observers of the process that despite safeguards to prevent double counting there were many abuses. For example, indelible ink was used to mark those who had been enumerated. There had been considerable preparation on the part of the Government to provide cleaning facilities to remove the ink. Refugees, who were somewhat confused the first time they were counted, were expert on the required procedure by the third or fourth turn. The government, it was reported, also provided military transport to move refugees to different enumeration stations. In the end the number of refugees was negotiated between UNHCR and the Government.

The issue was the sort which can easily be exploited by a government that is ruthless enough. Ultimately, the donors only weapon was the threat of the withdrawal of food that was not destined for Somalia, but rather for the refugees who were in Somalia. The Government had, in principle, nothing to lose. Granted it would face international censure, but then it could plead that the donors had impinged upon its sovereignty. It, therefore, used every opportunity to maximise its gains from the aid coming in and to limit the ability of the donors to determine what the real situation was.

The refugees were a political resource that attracted aid.* There were many Somalis who benefited from their presence since aid destined for refugees that could then be "appropriated". Secondly, the presence of a large number of refugees provided adequate justification for requesting additional aid to help Somalia deal with the problem.

Resource windfalls: Cambodia, America and the IMF. The case of Cambodia has certain similarities with that of Bangladesh, although it was complicated by the American military presence. There are really two cases of a resource windfall in Cambodia. The first

*The writer was responsible for Canadian aid provided to Somalia from 1980 to 1982 and led a mission to examine the problems of food distribution in late 1981. The situation described is based upon recollection of discussions with aid and Government personnel there and notes.

period of generous United States aid was from 1955 to 1963 when about \$350 million was disbursed. The second period was from after aid was resumed in 1970 until the fall of Phnom Penh to the Kymer Rouge in 1975.

Aid was renounced in 1963 by Sihanouk.²² In a press conference Sihanouk is quoted as saying the following:

In the first place I would cite the prospect of the withdrawal of American aid, aid which has more and more irritated not only myself but above all Cambodian circles of all tendencies, from progressives to nationalists of the right, for once in agreement. I must admit that the withdrawal of this aid will be an immense relief for us. For one thing, we won't have to hear any more talk of that aid as indispensable for our survival. For another, we will be obliged to devote infinitely more energy to the development of production.

. . . Everyone agrees, above all the foreign residents in Cambodia, that the rich are amassing fortunes at an inadmissible speed while the standard of living of the great majority of the population is improving only very slowly.²³

In the years following the cessation of United States aid under Prince Sihanouk the economy had stagnated.²⁴ As late as 1969 Cambodia had nevertheless continued to earn some 20 percent of its GNP through exports. Foreign Exchange reserves in February 1970 were \$69.3 million against imports the previous year of \$76.9 million or about 11 months coverage.²⁵ The debt service ratio was 8.7 percent of exports.²⁶ By the end of 1970, following the invasion and the resumption of aid, exports had virtually stopped.²⁷ Corruption under Sihanouk had existed, but had been small because of the Prince's authority, and because the small self-sufficient economy offered limited opportunities. With large amounts of economic aid the consumer price index climbed from 348 in March 1970 (1949=100) to 11,052 by the end of 1974. As Payer recounts "Internally, the class which had once enriched itself from US aid (prior to its having been discontinued in 1974 at Sihanouk's request)²⁸ still pined for its resumption".²⁹ In addition to the aid provided by the United States, the IMF had established an Exchange Support Fund. This was supported by the US, Japan, Britain, Australia, New Zealand and Malaysia, and was implemented through the sale of foreign exchange on a semi-weekly basis. The proceeds were mainly used to import luxury goods that were not eligible under the Commodity Import Program.³⁰ *Asian Survey* commented in 1971 that Cambodia "seemed to have entered a new era of economic dependence with no end in sight".³¹ In summary, the case of Cambodia supports the contention of this paper that foreign aid in large quantities, particularly when a small influential middle class have access to it, leads to both increasing inequity among the population and a breakdown of those institutions that build self-reliance. The effects of the

war also had a deleterious effect on such parts of the economy as the external sector and agricultural production in the war-affected areas. This contributed to the increasing dependence, but the role of foreign aid, particularly foreign aid, as liberally distributed as it was in Cambodia, was no doubt a major contributor to the country's eventual breakdown.

Aid as disincentive: Korea and American aid. Korea, often cited as the economic miracle of Asia, scarcely seems to be a candidate for our model, however, in the concluding annex on aid effectiveness in Robert Cassen and Associates report to the Task Force on Concessional Flows which was established by the Development Committee of the Joint Ministerial Committee of the Board of Governors of the World Bank and International Monetary Fund, the writers concludes as follows:

Until 1961, the Korean economy followed a policy of import substitution. It was completely dependent on donor support for food and consumption goods, as well as raw materials [emphasis added] and military assistance; Korean policy stressed the maximization of foreign assistance, . . . Charges that donor support was concentrated on consumption goods, and that the PL 480 food import programme retarded realistic pricing policies, were generally accurate, as the policy goals of donor and recipient were different.

President Park, . . . internally consolidated and centralized economic and political power, and externally, . . . shifted economic policy to an export promotion programme. . . .

Income distribution, although relatively favourable, worsened as the government until the early 1970s virtually ignored the rural sector. . . it is evident that, first the creation of urban employment in manufacturing and, later, subsidies and development in agriculture lowered the percentage of the population in poverty from 40 to 10 per cent.³²

Melvyn Krauss takes the argument further. He argues that:

Foreign aid on a large scale is known to lead to corruption on a large scale. The case of the Rhee regime in Korea, aid-financed agriculture and industrial projects were used to prop up Rhee's political fortunes rather than the Korean economy. As a result, one-fifth of all such projects financed by U.S. aid from 1953 to 1963 proved unsound . . . Korean GNP grew at an average rate of 1.9 percent during this period compared with figures three times that magnitude after aid and the government were scaled down in the 1970s.³³

Krause maintains that what the case of Korea demonstrates, is that the selection of policies in which a government becomes heavily reliant upon foreign aid, leads to dependence. It was only after American aid was discontinued, and the foreign exchange situation critical, that the Korean Government was forced to turn to promoting private investment and export led growth.³⁴ He also argues that the case of Taiwan is similar. The counter-argument is that aid provided the necessary initial investment to make export led growth possible. There may be some validity in this argument, but if we recall the example of the garment industry in Bangladesh, there was no aid involved. Indirectly such things as the generation of electric power may be the result of aid. This does not necessarily justify

the very large flows of food and commodities that form the bulk of the aid Bangladesh receives.

Conclusions. In summary, the negative characteristics which we have found in Bangladesh are not unique to that country. They are identifiable in other aid recipient countries, some of which, like Korea, are frequently touted as proof of the success of foreign aid. In a similar fashion we have also seen that Bangladesh has the capacity to respond to market opportunities, both at home and in the international marketplace. Bangladesh has proven that it can rise above its reputation as an "international basketcase". Aid, in the quantities in which it is presently given, seems not to be a major determinant of whether this takes place or not. In fact, some of the side effects of aid may militate against the three factors we discussed above, which are prerequisites for dramatic growth. It does have the capacity to respond to opportunities when the three critical factors are combined: entrepreneurship, a foreign catalyst and the willingness to learn a new skill or technology quickly. A fourth factor which might be added is improved management skills. While our examples of successes do work, they could be improved by the application of the transfer of western, or eastern, management techniques. Alternately there may exist some melding of the two with local customs which matches Bangladesh unique needs.

NOTES

1. Calculated from World Bank, Report No. 6049, Vol. II, table 3.4 p. 15.
2. World Bank, "Private Packages for Export Development", Innovative Approaches, World Bank, Vol. 1, No. 1, (March 1988), p. 6.
3. Ibid., p. 6-7.
4. Atiur Rahman, Demand and Marketing Aspects of Grameen Bank: A Closer Look (Dhaka: The University Press, 1986), p. 1.
5. Ibid., p. 1.
6. Mahabub Hossain assisted by M. Salimullah, Credit for the Rural Poor: The Experience of the Grameen Bank in Bangladesh (Dhaka: Bangladesh Institute of Development Studies, 1984), p. 6.
7. Ibid.
8. CMI, Bangladesh Country Study, p. 130.
9. Ibid., p. 131.
10. M. Yunus, Grameen Bank Project in Bangladesh - a Poverty Fourseed Rural Development Programme (Dhaka: Grameen Bank, 1982) quoted in Rahman, Demand and Marketing Aspects of Grameen Bank, p. 1.
11. Rahman, Demand and Marketing Aspects of Grameen Bank, p. 84.
12. Ibid., p. 80.

13. Ibid.
14. Ibid., p. 78.
15. Hossain, Credit for the Rural Poor, p. 126.
16. Ibid., p. 130.
17. Ibid., p. 131.
18. Sobhan, Crisis of External Dependence, p. 46.
19. Jan J. Milewski, Capitalism in Nigeria and problems of Dependence: Some Historical Comments in Dudley Seers, Dependency Theory: A Critical Reassessment (London: Frances Pinter, 1981), p. 115.
20. White, Politics of Foreign Aid, p. 89.
21. Ibid., p. 89n..
22. Cheryl Payer, The Debt Trap: The International Monetary Fund and the Third World (New York: Monthly Review Press, 1974), p. 102
23. Report of Sihanouk's press conference in Realité Combodgiennes, 15, November 1963 quoted in Payer, The Debt Trap, p. 103.
24. William Shawcross, Sideshow: Kissinger , Nixon and the Destruction of Cambodia with new material (London: The Hogarth Press, 1986), p.220.
25. Donald Kirk, "Cambodia's Economic Crisis", Asian Survey April 1971, p. 250 quoted in Cheryl Payer, The Debt Trap: The International Monetary Fund and the Third World (New York: Monthly Review Press, 1974), p. 105.
26. International Monetary Fund report on Cambodia, reprinted in Economy and Efficiency of US Aid Programs in Laos and Cambodia, Hearings before a Subcommittee of the Committee on Government Operations, House of Representatives, Ninety-Second Congress, First Session, 12 July 1971, p. 77. quoted in Payer, The Debt Trap, p. 105.
27. Shawcross, Sideshow, p. 220.
28. Payer, The Debt Trap, p. 102.
29. Ibid., p. 106.
30. Shawcross, Sideshow, p. 221.
31. Donald Kirk, Asian Survey, April 1971, quoted in Payer, The Debt Trap, p. 112.
32. Robert Cassen and Associates, Does Aid Work? Report to an Intergovernmental Task Force (Oxford: Clarendon Press, 1986), p. 355.
33. Melvin B. Krauss, "Some Economic Effects of Foreign Aid" in John Wilhelm and Gerry Feinstein eds., U.S. Foreign Assistance: Investment or Folly? (New York: Praeger, 1984) pp. 241-242.
34. Ibid., p. 242.

CHAPTER VII

CONCLUSIONS

The Relationship Between Donors and Dependence

Our hypothesis stated that when the "resource windfall" began to exceed the opportunities for productive investment, the proportion that could be "appropriated" from the total resources available would rise and that the upper classes would seek to further improve their standard of living. In Chapter III we documented numerous examples of "appropriation" of other types of aid.

We established in Chapter IV that Bangladesh is dependent on foreign aid even to meet such things as the salaries of employees who are engaged in activities financed under the Annual Development Plan which is financed almost completely by the proceeds of foreign aid. In addition to this they transfer nearly 10 per cent of the taka component the Annual Development Plan to the recurrent budget, a further "appropriation" of aid resources.

In Chapter V we explain that donors have provided aid to Bangladesh without appropriate knowledge of the country's needs, often without appropriate knowledge of the technology being introduced, and with little regard for how the aid is used and no appreciation for the unplanned effects that aid has had. This is so because the structure of the aid bureaucracy does not lend itself well to the kind of creative approach needed to solve the problems encountered in development, nor even to listen to those who do understand them.

The political economy of the regime. From 1971 to 1986 corruption became synonymous with the regimes that have predominated: from the financing of the Awami League coffers through the sale of emergency aid provided to the Bangladesh Red Cross, through the corruption that characterised the Zia regime to the allegations that have been made against the Ershad regime.

We have not been able to document the export of "appropriated" aid, through we can speculate that with a relatively free foreign exchange market, made possible by the significant balance of payments support provided by the donors, at least some of the profits of "appropriation" are exported. The situation is not much different, except in scale, from that of the Marcos regime in the Philippines whose members are estimated to have misappropriated and exported billions. Marcos himself, for example, was able to divert, for example, some \$2 million USAID project funds to help finance his re-election.¹ In Bangladesh such diversion appears to be on a somewhat more modest scale, but allegations do exist.

Aid permeates virtually every activity. The institutional structure in Bangladesh is weak and the absorptive capacity of the economy limited. The first Planning Commission never had much power. Short term political imperatives tended to predominate. Legitimate objectives such as the alleviation of poverty, no doubt conceptually a real priority of the first government during its early days, were soon displaced and became a "presentational" strategy for successive governments. Financial allocations in succeeding development plans did not reflect stated economic objectives. Rather they mirrored donor priorities in sectors where it was easy to disburse aid, and also relatively easy to "appropriate" resources. The Government encouraged this trend as opportunities arose to dispense patronage. Corruption became institutionalised even, as we have seen, in the parliament. The Government even opposed the few donors who sought to redirect the attention of the donor community towards the poor.

From the early attempts to pursue a self-reliant course, Bangladesh became a country seeking aid at almost any cost. We characterised the government of Sheikh Mujib in its early days as being "intransigently adaptive". That is to say that its officials were disinclined to bargain with their environment.² Their spurning the early initiatives of the World Bank attests to this, as does their cool attitude toward the United States during the same period. Yet, within three years we see Mujib, hat in hand, in Washington to ask for aid and Tajuddin, still an outspoken critic of the United States and now a critic of his own government's wastage, removed from office. During the next period, we see Zia "courting" McNamara for additional aid.³ Finally, we see Ershad struggling to lend an air of legitimacy to his government while still retaining power. These are the characteristics of what Rosenau calls an "acquiescently adaptive" country which he describes as having:

. . . a readiness to adjust external behavior and internal institutions to the demands emanating from at least one segment of the environment (usually the nearest superpower).⁴

We can replace "superpower" with "donor" in the above quote. In discussing the transformation of countries, Rosenau maintains that transformation from "intransigently adaptive" to "acquiescently adaptive" is highly unlikely. Indeed, in describing Israel as a "intransigently adaptive" country, he predicts that the society would be destroyed before changing. Yet in Bangladesh, we have seen a country that been transformed into a nation whose prime purpose seems to be the attraction of more foreign aid. Why?

The combination of weak institutions and surplus resources has shifted the determining forces onto individuals who pursue profit maximising strategies. These need not be simply for their own personal profit. They may be to improve their ministry, their party or their family, but this shift means that conventional economic forces are subverted and decisions are made for the wrong reasons.

The Food Distribution System. Food provided, ostensibly either to benefit the poor or for balance of payments support for a food deficit country, has allowed the Government to subsidise the relatively privileged in the society to an extent that would simply be impossible without aid. It has thus been "appropriated" by the Government in a largely unproductive form of patronage as a subsidy to the middle class. The people, for whom it was ostensibly intended for humanitarian reasons, have seen only a small proportion, less than 10 per cent, for Emergency Relief and the Vulnerable Group Feeding Programme, and about 15.0 per cent for the Food for Work Programme (see Table 3.6). In the latter we have seen that, while that some of the food benefit does reach the poor in the form of employment generating programmes, much of it is diverted to other ends.

In the case of the United States, food aid has been used to encourage "economic reform", an American foreign policy objective. This use of aid may be acceptable if the appropriate economic reforms are carried out, yet at the end of the period covered by this study the United States had still not succeeded in substantially reducing the amount of food going to Statutory Rationing and Priority Categories, although it has been successful in other areas such as privatisation of state corporations. In the case of other low conditionality donors, however, such as Canada and Australia, the rationale has been to help achieve humanitarian objectives and balance of payments support,⁵ yet by force of the Government's

"appropriation" food aid has actually contributed to an increasing inequitable distribution of income as much was diverted to the military, the civil service and patronage.

We have shown considerable evidence that even the small portion of food aid that was targeted at the poorest has been "appropriated" on a regular basis. During the 1974 famine, we recall that candid estimates put the amount of aid actually reaching the needy as only a small fraction of that given by the donors. Donors have seen fit to tolerate this situation either because they were unaware of it or because to have withheld aid would have interfered with other objectives: disbursements, political profile, their humanitarian image, etc. The revenue derived from the Food Distribution System, even though it may not represent the full value of the food distributed, has continued to allow the Government the luxury of ignoring the issue of domestic resource mobilisation.

Agriculture. Agriculture, the major sector which for the moment, is the only sector besides the garment industry with potential for growth and employment generation, could benefit the poor through employment generation, but it has been systematically deprived of the market that could provide the incentive to generate a surplus in the rural areas. As de Vylder points out, one of the fundamental assumptions of the "green revolution" approach to agriculture is that the existence of a market to absorb the surplus production, yet cheap food aid to the urban areas has deprived the rural areas of this market.⁶ Higher domestic production would have decreased the need for such large balance of payments support and allowed food aid to be used in much smaller quantities for the benefit of those who might genuinely suffer from the an increase in food prices.

Investment in agriculture has tended to be capital intensive and as such we have seen that it is easily "appropriated" by the rural middle class. Small scale agriculture has been ignored by all but a few donors, reflecting their capital intensive bias. Institutional development has been slow and the agricultural potential of the country remains largely unfulfilled.

Economic Growth. Economic growth while acceptable, has not been dramatic. It has taken place mainly in the capital intensive sectors that are not likely to provide the needed employment for the growing labour force. An increasing number of unemployed continue to flow to the urban areas. Investment has taken place largely in the "hard" sectors, industry, power, natural resources, transport and communications, all essential to the basic infrastructure of the country, but benefiting relatively few in the short term. It is little

wonder, therefore, that growth in those sectors has led agriculture. Industry is a mainly urban phenomenon. Natural resources development, gas in Bangladesh, benefits mainly the urban areas. The traditional transport of the country, the country boat, has been ignored for investments in railways. Communications facilities serve only a small minority. The energy sector serves mainly the upper classes as only 3.5 per cent of urban dwellers and a negligible per cent of rural dwellers have access to electricity.⁷ This lack of attention to rural areas has stimulated rural/urban drift to a point where Dhaka is becoming a demographic time bomb. In the meantime, the areas with the most potential have stagnated. So, while economic growth has been acceptable, it has been strongly biased towards the modern sector. Consequently, the poor have benefited little.

Business and industry. Business has continued to grow, perhaps even at rates that surpass other parts of the economy, however, the capital intensive nature of most investment does not provide the employment required to fulfill the country's needs, with the notable exception of the garment industry. Businessmen still prefer the generous returns on importing to the more modest returns from investment in local industry.

The model did not predict the most successful development in the business sector, the garment sector. Nor did it predict that the donors would demonstrate that their own domestic priorities would take precedence over efforts to constrain an industry, the pharmaceutical industry, that many believe has acted irresponsibly in many developing countries and has put profits before the national good. Nor again did it predict that the probably one of the most dramatic success stories, the growth of the garment industry, would take place in the modern business sector with positive effects for both employment and foreign exchange earnings.

What it did predict was that there would be under-utilised capacity and that the import business would remain paramount, which it has.

Equity: growth of the middle and upper classes. Increasingly, a few local businessmen have benefited from the proceeds of aid. The notable exception is again the garment industry. These businesses have in turn become influential forces in the community for the continuation of aid. Consequently, the benefits of aid have been concentrated in the hands of a relative few. These few, however, have maintained considerable influence in the Government.

While we have not established the size of the upper class, the orders of magnitude still make it an infinitesimal proportion of the population. Sobhan's estimate is 1000 families. Koht Norbye suggests 50,000 who could be classified as making over a million taka a year. Farouk estimates 250,000 families. Whichever we select, and the criteria obviously vary from estimate to estimate, we are still only talking about 1 per cent of the total population. Sobhan and Mahmood's estimate that 1000 families have benefitted from loans totalling US\$500 million, largely unrepaid, suggests a great concentration of wealth in the hands of a very few and a substantial concentration of the benefits of aid.

Foreign aid. We can conclude that donors are unable, or unwilling, to effectively target their aid at the poorest. The major constraint is the structure of the donors bureaucratic system, which demands performance in terms of disbursements, but is weak in assessing the impact of the aid actually delivered. Thus, food aid ends up supporting a system of perquisites for the armed forces, the civil service and fixed salary urban workers, rather than feeding the poor. Donors financed locomotives, gas development, and fertiliser factories.

The Bangladesh bureaucracy in turn has been conditioned, not only by their own culture, but by donor attitudes, to think of social problems in a paternalistic manner,⁸ Decision-making is centralised in donor capitals, thousands of miles in away from where the projects are being implemented, and from which the local bureaucracy is largely excluded. This does not encourage the development of creative and innovative approaches to solving the problems of development. Nor does it utilise as fully as possible the knowledge of local experts. The donors' approach to aid, administered by a privileged elite isolated in the relative luxury of Gulshan, reinforces this attitude and the local bureaucracy emulates it, with only a few exceptions.

We proposed a model that demonstrated how, when the benefits of aid were "appropriated" the distribution of income shifted in favour of the upper class.

Conclusion. The bright spot is that, in small but important segments of the economy progress has been made achieving some development objectives. Bangladesh has demonstrated that it does have the capacity to respond to new initiatives, such as the garment industry and the growth of wheat. The Grameen Bank has shown that significant returns can be achieved using local resources. These achievements have been attained with very modest financial inputs of foreign aid and carefully limited, foreign intellectual input. The

proliferation of foreign aid, motivated primarily by bureaucratic elites in the recipient country and an aid donor bureaucracy driven to achieve objectives, such as disbursement targets and the support of their own domestic manufacturers, in a country with few natural resources of its own, has resulted in the formation of a regime dependent on the continuation of foreign aid. We saw in Chapter IV that the Government could probably not continue to operate if food and commodity aid were cut, so dependent are they on the revenues these forms of aid bring to the Annual Development Plan.

While some countries have successfully resisted this pressure Bangladesh, twice born in the last half-century, has not yet developed the institutional maturity to be able to. Short term micro-economic decisions to maximise individuals' utility, i.e., to make their own bureaucracy work better, to increase personal wealth, or to promote family interests have neutralised many of the broad policy objectives of aid.

Many of the types of aid provided are inappropriate.⁹ Capital intensiveness in a labour surplus economy does not provide jobs for the unemployed. Bauer is correct:

Official aid does not go to poor people, to the skeletal figures of aid propaganda. It goes instead to their rulers whose spending policies are determined by their own personal and political interests, among which the position of the poorest has very low priority. [emphasis added] Indeed, to support rulers on the basis of the poverty of their subjects is more likely to encourage policies than to deter them. the familiar references of 'aid to the poorest', to describe transfers to governments of countries with low incomes, confuses rulers with their subjects.¹⁰

Although aid may be justified to the donors' taxpayers on the basis of poverty and given to the poorest countries with that justification, little of it reaches those for whom it was justified. We have criticised the Bangladesh government for "appropriating" aid to serve its own needs, which often have little to do with helping the poor to secure employment or achieve a higher nutritional intake, or gain access to better housing. The same criticism must also be made of the donor governments. The administration of aid in the field is clearly inadequate, with the notable exception of USAID and UNICEF who at least have a strong presence in the field. Most aid is heavily tied to domestic procurement and as such, without close and knowledgeable monitoring is often unsuitable for local conditions

We have seen that, as capital intensive and urban oriented as the Government of Bangladesh has been, the donors have been even more so. Their inability to administer programmes effectively from their centralised headquarters has led them to continue to rely on capital intensive projects and ignore a more broad based approach to development.

The "Report on Poverty in Bangladesh" found that aid was used as a form of patronage,¹¹ but, although it is beyond the scope of this study, we can also surmise that aid is also used as a form of patronage by the donors to reward support from that part of their domestic private sector that is interested in easy access to external markets. This is a facet of aid that deserves attention.

Where to? Would a stop to aid lead to breakdown? The Bangladesh Country Study concludes that the elimination of food aid would have a very serious impact on the economy, and particularly on the poor since the total availability would drop by about 10 per cent, but it does not speculate on the incentive effect this would provide for farmers. A reduction in commodity aid might not have the same dramatic effect on the poor that a reduction in earnings in some sectors would have. The loss of project aid would slow the economy.¹² It also cautions that there is cause for concern as visible signs of wealth proliferate among the well off, and counsel that Norwegian aid should concentrate on forms of assistance that benefit the poor.¹³

Farouk argues that the poor benefit little now and would not lose much from the loss of something they have little access to at present. For example, the loss of aid commodities, such as cotton, would stimulate production and local business benefit from the protection they would receive from the loss of foreign exchange. The Annual Development Programme would be severely curtailed and Government forced into a serious domestic resource mobilisation effort.¹⁴ He concludes that:

Aid made power so valuable in our society that a share in power is considered more important than efficiency and hard work. . . . Aid . . . has made power-politics more important than gainful, productive employment.¹⁵

But aid will not be cut. The Bangladesh bureaucracy's ability to cater to the donors' wishes has become an art honed to perfection by bureaucrats who have spent a large proportion of their careers operating in a regime dedicated to the procurement of foreign aid. The Third Five Year Plan stresses the alleviation of poverty as enthusiastically as did the First Plan in the days of heady idealism after independence, but there is little to indicate in the actions of the Government that "appropriation" of aid will be curtailed and it put to more productive use. Even the term "test case", coined by Faaland and Parkinson has been "appropriated" to justify aid. In a letter to the Swedish Prime Minister, Torbjörn Fälldin, President Zia said: ". . . Our country is a test case for ourselves and for the free world . . ." ¹⁶

The rapid growth of wheat production is a direct result of the technology transfer given Bangladesh during its early days and was developed without the assistance of donors, although one could attribute its success indirectly to donor support for CIMMYT. This was aid that did not spread resources around ripe for "appropriation". It was the transfer of technology, the right technology at the right time, and the time was right because the market was right. There had been a demand created for wheat by the food aid provided during emergencies which actually did reach the people for whom it was intended. Finally it was the addition of a new crop that complemented rather than competing with the traditional crops.

The growth of the garment industry, is totally unrelated to the efforts of the donors and not directly attributable to the efforts of the Government, although the policies of the latter have to some extent provided the climate in which success has been achieved. If anything, the donors have sought to curtail the growth of this sector by the imposition of quotas under the Multi-Fibre Agreement. ✓

The growth of wheat production from 110 thousand tons, 0.9 per cent of grain production, in 1971, to 1,192 thousand tons, 7.7 per cent of grain production in 1984, growth that averaged 20.1 per cent per annum, is the direct result of the change in tastes brought about by the provision of large quantities of food aid and the fortuitous circumstance that the climate and geography of Bangladesh allow the cultivation of crops during seasons that do not conflict with the more traditional staple crops grown. The success of wheat is evidence that the traditional "green revolution" approach of high yielding varieties of crops combined with more inputs delivered at the correct time can lead to spectacular results.

The spectacular growth of the garment industry has dominated the growth of Bangladesh's non-traditional exports and provided new jobs for more than 100,000 people, most of them women. The garment industry was an almost insignificant sector of the economy in 1980 and it has grown to account for 12.1 per cent of the country's merchandise exports in 1984/85 making it the third largest export after jute manufactures and raw jute.¹⁷ This has had more impact on the economy in terms of generating growth and the redistribution of income than any foreign aid programme. Furthermore, it has done more to promote the role of women, a current donor preoccupation, than the combined efforts of the donors through traditional aid programmes.

The transformation of Bangladesh Biman from a chronic money-loser to a profit center was the result of sound local management, a willingness to use foreign expertise and at least the partial suspension of some of the bureaucracy's more confining rules.

What these modest successes demonstrate is that Bangladesh does have the capacity to rise above its image as an "international basket case". There is the potential for entrepreneurship to emerge from what has hitherto been considered by some to be a nation of traders. Bangladesh is not, on the basis of these few successes, suddenly going to emerge from the economic doldrums that have characterised its economy since before independence, but it does show that there is the potential to develop the skills necessary to transform the economy from its overwhelmingly agrarian base to a more diversified economy.

The final conclusion of this study is not that traditional economic policies have failed, but rather that traditional approaches to development have ignored the micro-economic aspects of underdevelopment. Undeveloped institutions, lack of skilled personnel, scarcity of resources have all conspired to put a great deal of power in the hands of a very small group of people who have in many cases sought, quite conventionally, to maximise their own short term benefit. Given the imperfections in the institutional development developing countries their objectives have been able to subvert traditional market forces at the macro level. The monopolistic or oligarchical positions of decision-makers has, in essence often subverted the end to which foreign aid resources were aimed. Foreign aid was not all diverted to corrupt ends. The nature of bureaucracies demands that they grow or perish. Resources are used to develop influence, build empires, and better one's own position. Conventional liberalisation policies as advocated by the World Bank and the International Monetary Fund have increased the resources under decision-makers control by large amounts. In Nkruma's Ghana, when foreign exchange was gone, the shops were empty. In Ershad's Bangladesh the shops are full despite an imbalance of trade that has ranged between 11 and 14 percent of GDP. The World Bank's conventional response to this state of affairs is that comparative advantage will triumph in the end. This does not, however, provide an answer to the challenge that the benefits of liberalization are going to the importers of foreign goods while manufacturers struggle against established industries.

"Appropriation" and corruption in Bangladesh have flourished because well-meaning donors have continued to pour money in with little regard for how it is used. Bureaucrats and entrepreneurs have seen the opportunities to maximise their own benefits,

as opposed to those of the majority of the population. The result has been a diversion of funds from their intended use to other uses. The poor have remained poor. The wealthy have gotten a little more wealthy and the donors have felt better for their contribution.

This study is not an outright condemnation of foreign aid. Bangladesh represents the extremes of poverty and geographic vulnerability. The problems of aid and development are magnified in this environment. For that reason we should be particularly careful in other environments where the shortcomings are not as evident.

NOTES

- 1.J. Rupert, "Auditor Says Marcos Diverted Interest from AID Account", The Washington Post, (March 20, 1986), p. A1, cited in Guess, Politics of United States Foreign Aid, Preface.
- 2.Rosenau, Scientific Study of Foreign Policy, p. 513.
- 3.Franda, Bangladesh: The First Decade, p. 282.
- 4.Rosenau, Scientific Study of Foreign Policy, p. 509.
- 5.Australia, The Australian Overseas Aid Program, p. 21. The Report found that 69 per cent, more than supported any other rationale, of those who supported aid did so because the "rich should help poor". North-South Institute, Canadian Development Assistance to Bangladesh, p. 95.
- 6.de Vylder, Agriculture in Chains, p. 34.
- 7.World Bank, Report No. 6049, p. 1.
- 8.Franda, The First Decade, p. 38.
- 9.Bauer, Equality, the Third World and Economic Delusion, p. 107.
- 10.Ibid., p. 111.
- 11.North-South Institute, "Rural Poverty in Bangladesh", p. 151.
- 12.Chr. Michelson Institute, Bangladesh Country Study, p. 107.
- 13.Ibid., p. 108.
- 14.Farouk, Changes in the Economy of Bangladesh, p. 89.
- 15.Ibid., p. 90.
- 16.Letter from President Ziaur Rahman to Prime Minister Torbjörn Fälldin dated 5 December 1979, quoted in de Vylder, Agriculture in Chains, pp. 41-42.
- 17.World Bank, Report No. 6049, Table 3.4, p. 15.

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APPENDIX I

Country	Symbol	Population	Aid as a % of GNP					Log Y	X ²	Y ²	XY	Regression on Log X	Antilog of X
			X	Log X	Y ²	Y ³	Y ⁴						
China	Chi	1029.2	3.012	0.3				-0.523	9.075	0.273	-1.575	-0.545	0.285
India	Ind	749.2	2.875	0.8				-0.097	8.263	0.009	-0.279	-0.462	0.345
Indonesia	In	156.9	2.201	0.9				-0.046	4.845	0.002	-0.101	-0.060	0.871
Bangladesh	Banglade	98.1	1.992	9.3				0.968	3.967	0.938	1.929	0.065	1.161
Nigeria	Nigeria	96.5	1.985		0.0			-3.000	3.938	9.000	-5.954	0.069	1.173
Pakistan	Pakistan	92.4	1.966	2.1				0.322	3.864	0.104	0.633	0.080	1.203
Philippines	Ph	53.4	1.728			1.2		0.079	2.984	0.006	0.137	0.223	1.669
Thailand	Th	50.0	1.699	1.1				0.041	2.886	0.002	0.070	0.240	1.736
Turkey	Tu	48.4	1.685			0.5		-0.301	2.839	0.091	-0.507	0.248	1.770
Egypt	Egypt	45.9	1.662			5.5		0.740	2.762	0.548	1.230	0.262	1.827
Ethiopia	Ethiopia	42.2	1.625			7.7		0.886	2.642	0.786	1.441	0.284	1.921
Burma	Burma	36.1	1.558			4.3		0.633	2.426	0.401	0.987	0.324	2.109
Paraguay	Pa	33.0	1.519		1.3			0.114	2.306	0.013	0.173	0.347	2.225
Zaire	Zaire	29.7	1.473			10.1		1.004	2.169	1.009	1.479	0.375	2.370
Columbia	Col	28.4	1.453		0.2			-0.699	2.112	0.489	-1.016	0.386	2.434
Tanzania	Tanzania	21.5	1.332			14.7		1.167	1.775	1.363	1.555	0.458	2.874
Morocco	Mo	21.4	1.330			2.3		0.362	1.770	0.131	0.481	0.460	2.882
Kenya	Kenya	19.6	1.292			7.5		0.875	1.670	0.766	1.131	0.482	3.037
Peru	Pe	18.2	1.260				1.9	0.279	1.588	0.078	0.351	0.502	3.175
Nepal	Ne	16.1	1.207	7.9				0.898	1.456	0.806	1.083	0.533	3.416
Sri Lanka	SL	15.9	1.201			8.0		0.903	1.443	0.816	1.085	0.537	3.441
Uganda	Ug	15.0	1.176			3.3		0.519	1.383	0.269	0.610	0.552	3.563
Ghana	Gh	12.3	1.090			5.7		0.756	1.188	0.571	0.824	0.603	4.011
Syria	Syria	10.1	1.004			5.3		0.724	1.009	0.525	0.727	0.654	4.512
Cote d'Ivoire	CI	9.9	0.996	2.2				0.342	0.991	0.117	0.341	0.660	4.566
Madagascar	Mg	9.9	0.996			7.0		0.845	0.991	0.714	0.841	0.660	4.566
Cameroon	Cam	9.9	0.996		2.5			0.398	0.991	0.158	0.396	0.660	4.566
Ecuador	Ec	9.1	0.959			1.5		0.176	0.920	0.031	0.169	0.681	4.802
Zimbabwe	Zim	8.1	0.908	5.8				0.763	0.825	0.583	0.694	0.712	5.148
Yemen AR	YAR	7.8	0.892			8.2		0.914	0.796	0.835	0.815	0.721	5.265
Guatemala	Gu	7.7	0.886	0.7				-0.155	0.786	0.024	-0.137	0.725	5.306
Mali	Mali	7.3	0.863			32.0		1.505	0.745	2.265	1.299	0.739	5.477
Tunisia	Tu	7.0	0.845	2.2				0.342	0.714	0.117	0.289	0.749	5.616
Malawi	Mal	6.8	0.833	13.8				1.140	0.693	1.299	0.949	0.757	5.715
Burkina Faso	BF	6.6	0.820			19.7		1.294	0.672	1.676	1.061	0.765	5.817
Senegal	Se	6.4	0.806			14.8		1.170	0.650	1.370	0.943	0.773	5.925
Zambia	Zm	6.4	0.806				9.8	0.991	0.650	0.983	0.799	0.773	5.925
Bolivia	Bol	6.2	0.792	5.5				0.740	0.628	0.548	0.587	0.781	6.039
Niger	Ni	6.2	0.792		14.8			1.170	0.628	1.370	0.927	0.781	6.039
Dominican R	DR	6.1	0.785			4.2		0.623	0.617	0.388	0.489	0.785	6.097
Guinea	Gu	5.9	0.771				6.3	0.799	0.594	0.639	0.616	0.794	6.220
Rwanda	Rw	5.8	0.763			10.2		1.009	0.583	1.017	0.770	0.796	6.284
El Salvador	ELS	5.4	0.732			6.6		0.820	0.536	0.672	0.600	0.817	6.558
Haiti	Ha	5.4	0.732		7.5			0.875	0.536	0.766	0.641	0.817	6.558
Burundi	Bur	4.6	0.663		15.0			1.176	0.439	1.383	0.779	0.858	7.217
Honduras	Ho	4.2	0.623				9.6	0.982	0.388	0.965	0.612	0.882	7.619
Benin	Ben	3.9	0.591	8.0				0.903	0.349	0.816	0.534	0.901	7.964
Sierra Leone	SLe	3.7	0.568	6.2				0.792	0.323	0.628	0.450	0.915	8.218
Jordan	Jordan	3.1	0.531			18.0		1.255	0.282	1.576	0.667	0.937	8.644
Papua New	PNG	3.4	0.531			13.8		1.140	0.282	1.299	0.606	0.937	8.644
Nicaragua	Nic	3.2	0.505	4.2				0.623	0.255	0.388	0.315	0.952	8.963
Togo	Tg	2.9	0.462		16.7			1.223	0.214	1.495	0.565	0.978	9.505
Costa Rica	CR	2.5	0.398	6.7				0.826	0.158	0.682	0.329	1.016	10.386
CAR	CAR	2.5	0.398		18.8			1.274	0.158	1.623	0.507	1.016	10.386
Jamaica	Jamaica	2.2	0.342		8.2			0.914	0.117	0.835	0.313	1.050	11.210
Liberia	Li	2.1	0.322			13.6		1.134	0.104	1.285	0.365	1.062	11.526
Yemen PDR	YPDR	2.0	0.301		7.3			0.863	0.091	0.745	0.260	1.074	11.866
Congo	CB	1.8	0.255		5.3			0.724	0.065	0.525	0.185	1.102	12.637
Mauritania	Mau	1.7	0.230		24.6			1.391	0.053	1.935	0.321	1.116	13.075
Lesotho	Les	1.5	0.176		17.6			1.246	0.031	1.551	0.219	1.149	14.090
Bhutan	Bhu	1.2	0.079	6.0				0.778	0.006	0.606	0.062	1.207	16.098
Mauritius	Ms	1.0	0.000			3.5		0.544	0.000	0.296	0.000	1.254	17.949
Botswana	Bot	1.0	0.000			11.6		1.064	0.000	1.133	0.000	1.254	17.949
		0.9	-0.046									1.281	19.115
Sum of X	2934.2	0.8	-0.097	492	Sum of Log Y	41.224	88.226	54.332	26.676	1.312	20.508		
		0.7	-0.155									1.347	22.209
Sum of Log	63.278	0.6	-0.222							r=	-0.57	1.387	24.351
		0.5	-0.301									1.434	27.151
		0.4	-0.398									1.492	31.021
		0.3	-0.523									1.566	36.834
		0.2	-0.699									1.671	46.923
Regression Output:													
Constant		1.25405											
Std Err of Y Est		0.551651											
R Squared		0.321459											
No. of Observations		63											
Degrees of Freedom		61											
X Coefficient		-0.59708											
Std Err of Coe		0.111068											

APPENDIX II

Country	Symbol	Population		Aud Per Capita					Regression				Antilog Y	
		X	Log X	Y ₂	Y ₃	Y ₄	Y ₅	Log Y	X ²	Y ²	X*Y	on Log Y		
China	Chi	1029.2	3.01	0.8				-0.10	9.08	0.64	0.009	1.022	0.190	1.550
India	Ind	749.2	2.87	2.1				0.32	8.26	4.41	0.104	1.270	0.263	1.832
Indonesia	In	158.9	2.20	4.2				0.62	4.84	17.64	0.386	2.446	0.616	4.153
Bangladesh	Bangladesh	96.1	1.99	12.3				1.09	3.97	1.19	2.171	148.160	0.729	5.357
Nigeria	Nigeria	96.5	1.98		0.3			-0.52	3.94	0.27	-1.038	0.092	0.733	5.403
Pakistan	Pakistan	92.4	1.97	7.5				0.88	3.86	0.77	1.720	52.491	0.743	5.529
Viet Nam	VN	60.1	1.78	1.8				0.26	3.16	0.07	0.454	2.845	0.841	6.937
Philippines	Ph	53.4	1.73				7.4	0.87	2.98	0.76	1.502	31.742	0.868	7.384
Thailand	Tb	50.0	1.70				9.5	0.98	2.89	0.96	1.661	45.827	0.883	7.645
Turkey	Tu	48.4	1.68	5.0				0.70	2.84	0.49	1.178	15.054	0.891	7.777
Egypt	Egypt	45.9	1.66	38.4				1.58	2.76	2.51	2.633	429.400	0.903	7.998
Ethiopia	Ethiopia	42.2	1.63			8.6		0.93	2.64	0.87	1.519	33.026	0.922	8.360
Burma	Bur	36.1	1.56				7.6	0.88	2.43	0.78	1.372	23.544	0.958	9.078
Paraguay	Par	33.0	1.52	15.3				1.18	2.31	1.40	1.799	62.946	0.979	9.519
Zaire	Zai	29.7	1.47			10.6		1.03	2.17	1.05	1.510	32.361	1.003	10.063
Columbia	Col	28.4	1.45	3.1				0.49	2.11	0.24	0.714	5.177	1.013	10.303
Tanzania	Tanzania	21.5	1.33	26.0				1.41	1.78	2.00	1.885	76.801	1.077	11.934
Morocco	Mor	21.4	1.33			13.4		1.13	1.77	1.27	1.500	31.588	1.078	11.963
Sudan	Sud	21.3	1.33			28.9		1.46	1.76	2.13	1.941	87.222	1.079	11.993
Kenya	Kenya	19.6	1.29			22.1		1.34	1.67	1.81	1.737	54.613	1.096	12.531
Peru	Pe	18.2	1.26			17.0		1.23	1.59	1.51	1.550	35.518	1.115	13.030
Nepal	Ne	16.1	1.21			12.3		1.09	1.46	1.19	1.315	20.669	1.143	13.901
Sri Lanka	SL	15.9	1.20		29.5			1.47	1.44	2.16	1.766	58.323	1.146	13.993
Uganda	Ug	15.0	1.18			10.9		1.04	1.38	1.08	1.220	16.600	1.159	14.430
Mozambique	Moz	13.4	1.13			19.3		1.29	1.27	1.65	1.449	28.116	1.185	15.315
Ghana	Gh	12.3	1.09			17.5		1.24	1.19	1.55	1.355	22.636	1.205	16.023
Syria	Syria	10.1	1.00			85.1		1.93	1.01	3.72	1.938	86.750	1.250	17.779
Cameroon	Cam	9.9	1.00		19.0			1.28	0.99	1.64	1.273	18.757	1.255	17.966
Cote d'Ivoire	CI	9.9	1.00			13.0		1.11	0.99	1.24	1.109	12.855	1.255	17.966
Angola	An	9.9	1.00			10.9		1.04	0.99	1.08	1.033	10.787	1.255	17.966
Madagascar	Mg	9.9	1.00		15.8			1.20	0.99	1.44	1.193	15.611	1.255	17.966
Cuba	Cuba	9.9	1.00	1.2				0.08	0.99	0.01	0.079	1.199	1.255	17.966
Ecuador	Ec	9.1	0.96	14.9				1.17	0.92	1.38	1.125	13.339	1.274	18.785
Zimbabwe	Zimbabwe	8.1	0.91			36.7		1.56	0.83	2.45	1.421	26.392	1.300	19.975
Yemen AR	YAR	7.8	0.89			40.4		1.61	0.80	2.58	1.433	27.105	1.309	20.377
Guatemala	Gu	7.7	0.89	8.4				0.92	0.79	0.85	0.819	6.597	1.312	20.516
Mali	Mali	7.3	0.86			43.6		1.64	0.75	2.69	1.415	26.026	1.324	21.102
Tunisia	Tu	7.0	0.85	25.8				1.41	0.71	1.99	1.193	15.594	1.334	21.574
Malawi	Mal	6.8	0.83			23.2		1.37	0.69	1.86	1.137	13.702	1.341	21.907
Burkina Faso	BF	6.6	0.82		28.7			1.46	0.67	2.13	1.195	15.660	1.347	22.255
Zambia	Zm	6.4	0.81	37.1				1.57	0.65	2.46	1.265	18.416	1.354	22.619
Senegal	Sen	6.4	0.81			52.2		1.72	0.65	2.95	1.365	24.252	1.354	22.619
Niger	Nig	6.2	0.79			26.1		1.42	0.63	2.01	1.123	13.260	1.362	23.001
Bolivia	Bo	6.2	0.79			27.7		1.44	0.63	2.08	1.143	13.900	1.362	23.001
Dominican R	DR	6.1	0.79			32.4		1.51	0.62	2.28	1.186	15.356	1.365	23.199
Guinea	Gu	5.9	0.77			20.8		1.32	0.59	1.74	1.016	10.376	1.373	23.611
Rwanda	Rw	5.8	0.76			28.2		1.45	0.58	2.10	1.107	12.799	1.377	23.825
Haiti	Hai	5.4	0.73	25.1				1.40	0.54	1.96	1.025	10.595	1.393	24.741
El Salvador	EIS	5.4	0.73			48.6		1.69	0.54	2.84	1.235	17.190	1.393	24.741
Somalia	Som	5.2	0.72			69.4		1.84	0.51	3.39	1.318	20.817	1.402	25.238
Chad	Chad	4.9	0.69	23.6				1.37	0.48	1.88	0.948	8.863	1.416	26.042
Burundi	Bur	4.6	0.66	30.7				1.49	0.44	2.21	0.986	9.674	1.430	26.925
Honduras	Ho	4.2	0.62			68.6		1.84	0.39	3.37	1.144	13.947	1.451	28.249
Benin	Ben	3.9	0.59	19.7				1.29	0.35	1.68	0.765	5.823	1.468	29.376
Sierra Leone	SLe	3.7	0.57			16.5		1.22	0.32	1.48	0.692	4.918	1.480	30.203
Laos	Laos	3.5	0.54	9.6				0.98	0.30	0.96	0.534	3.423	1.493	31.102
Jordan	Jo	3.4	0.53	200.0				2.30	0.28	5.29	1.223	16.709	1.499	31.582
Papua New	PNG	3.4	0.53			94.0		1.97	0.28	3.89	1.049	11.186	1.499	31.582
Nicaragua	Nic	3.2	0.51			36.0		1.56	0.26	2.42	0.786	6.112	1.513	32.608
Togo	Tg	2.9	0.46	37.3				1.57	0.21	2.47	0.727	5.330	1.536	34.347
CAR	CAR	2.5	0.40			45.1		1.65	0.16	2.74	0.658	4.553	1.570	37.145
Costa Rica	CR	2.5	0.40			86.0		1.93	0.16	3.74	0.770	5.886	1.570	37.145
Jamaica	Jamaica	2.2	0.34			77.6		1.89	0.12	3.57	0.647	4.437	1.599	39.737
Liberia	Lib	2.1	0.32			62.6		1.80	0.10	3.23	0.579	3.792	1.610	40.725
Yemen PDR	YPDR	2.0	0.30			41.9		1.62	0.09	2.63	0.488	3.078	1.621	41.787
Mongolia	Mo	1.9	0.28		0.1			-1.00	0.08	1.00	-0.279	0.526	1.633	42.934
Congo	Congo	1.8	0.26			53.9		1.73	0.07	3.00	0.442	2.767	1.645	44.176
Mauritania		1.7	0.23	101.5				2.01	0.05	4.03	0.462	2.900	1.658	45.529
Lesotho	Les	1.5	0.18			65.8		1.82	0.03	3.31	0.320	2.090	1.687	48.638
Bhutan	Bhu	1.2	0.08			4.8		0.68	0.01	0.46	0.054	1.132	1.738	54.716
Mauritius	Ms	1.0	0.00			35.1		1.55	0.00	2.39	0.000	1.000	1.780	60.241
Botswana	Bot	1.0	0.00			99.2		2.00	0.00	3.99	0.000	1.000	1.780	60.241
		0.9	-0.06										1.804	63.686
		0.8	-0.10										1.831	67.770
		0.7	-0.15										1.862	72.717
		0.6	-0.22										1.897	78.880
		0.5	-0.30										1.939	86.846
		0.4	-0.40										1.990	97.698
		306.3	71.7324	1974.4				90.30	97.77	159	74.578	90.299		
			X		r=	-0.4		Y	X ²	Y ²	X*Y			
Regression Output:														
Constant		1.779895												
Std Err of Y Est		0.481694												
R Squared		0.310612												
No. of Observations		72												
Degrees of Freedom		70												
X Coefficient		-0.527696												
Std Err of Coe		0.0939196												